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CANADIAN INTERNATIONAL DEVELOPMENT AGENCY

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J A M A I C A

SECTORAL REVIEW - INDUSTRY

(Manufacturing Sector/SSE/Informal Sector)

INDUSTRIAL SERVICES

JANUARY 1984

CANADIAN INTERNATIONAL DEVELOPMENT AGENCY



JAMAICA

SECTORAL REVIEW - INDUSTRY

(Manufacturing Sector/SSE/Informal Sector)



EXECUTIVE SUMMARY

Objectives

The main objectives of the mission were: (a) to determine the present socio-economic conditions prevalent in the industrial sector and identify the developmental constraints; (b) to determine if the industrial sector needs to be retained as a sector of concentration; (c) to translate this concentration into privileged subsectors; and (d) to develop a strategy and possible options for CIDA's intervention.

Economic Overview/Government Strategy


The current prospects for the Jamaican economy are not bright. If the present policy regime is not reformulated soon in a coherent and credible way, then further decline is inevitable. The present government strategy of export promotion, which replaces the previous strategy of import substitution, is not getting the expected results. Indeed, the little economic improvement of 1981 and 1982 has started declining again, and the foreign exchange situation is reaching its limit to the point that a liquidity crunch is possible.

Due to the lack of a long-term, well structured development plan, the present industrial strategy, which is mostly focused on the export-oriented manufacturing sector, has not alleviated the critical situation of the industrial sector and most of the mechanisms used to boost the present strategy are not performing well.

Institutional/Financial Framework

Jamaica's industrial sector has a comprehensive, if not overburdened, institutional framework with some new institutions almost duplicating the role of those being replaced, while in other cases, the elimination of certain institutions has created a void, particularly in the small business sector. The situation is particularly critical for the financial system which does not address the needs of small entrepreneurs.

While most of the financial credit goes to the modern manufacturing sector and to large enterprises, small and microenterprises have little or no access to credit.



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Furthermore, the new government policy of having NDB and ACB become wholesalers of funds for the private sector has left a void in terms of medium/long-term financing, as commercial banks are neither interested nor willing to assume the risks of development banking.

Industrial Performance

Manufacturing is the great hope of the Jamaicans in the 1980's, and the analysis of the industrial sector shows its important contribution to the GDP despite its declining performance from 1973 until reaching bottom in 1980. Since 1980, the manufacturing sector has accounted for an average of about 15 percent of GDP and 11 percent of the employed labour force. There is a disparity, however, between the modern manufacturing sector and the informal sector (SSE, microenterprises and crafts). While the first has been overprotected by the GOJ with a number of protectionist policies, and more recently with export-oriented incentives and schemes, the informal sector has been largely neglected. In terms of employment, the informal sector (small and microenterprises) surpasses considerably the modern sector (200,000 versus 50,000), with the great advantage of the former of its decentralization from urban centres and absorption of an important part of the rural population.

Problems/Constraints

The problems and constraints affecting Jamaica's industrial sector are substantial, and the recent switch to an export-oriented strategy has not improved the situation. Indeed, the most serious constraints affecting the sector are the shortage of foreign exchange, the balance of payments deficit, the sudden elimination of various QR's, the lack of managerial skills and Jamaica's trading mentality. The situation is exacerbated in the informal sector, particularly with small and microenterprises located in rural areas. While these enterprises face many of the modern manufacturing sector's constraints, they are hard hit by other problems intrinsic to this sector, such as lack of access to credit, limited business capacity, and the exclusion from major sectoral development policies and incentives.

Nevertheless, the GOJ, through its Ministry of Industry and Commerce, has developed a National Development Plan for the small business sector which, if implemented, could have a major spill on the development of this sector.

Rationale for CIDA Intervention

The industrial sector should be retained as a major sector of concentration for the following reasons:

- a) The industrial sector, along with the agricultural sector, constitutes one of the mainstays of Jamaica's economy (18.6% of the GDP in 1977).
- b) Although the modern manufacturing sector is well-endowed with a good financial and institutional base, as we have previously seen, it is in a precarious situation and an intervention in the short term is necessary.
- c) On a socio-economic basis, the informal sector (rural/urban small and microenterprises), which has been largely neglected by government policies and development plans, could play an important role in decentralization from major towns and in alleviating unemployment.

Strategic Elements

From the analysis of the existing National Development Strategy (based on job creation through export of manufactured goods and agricultural produce, with heavy reliance on the private sector), of the Industrial Strategy (based on export promotion) and of the SSE Strategy (based on a National Development Plan for small enterprises), the major elements of a possible CIDA Strategy can now be developed, which will eventually lead to a number of possible options for CIDA's intervention. These are:

- i) Short-Term Strategy, which will provide balance of payments support and/or foreign exchange to the industrial sector, and institutional support to private sector organizations;
- ii) Medium-Term Strategy, which will assist local SSE already involved in generating foreign exchange, and assistance in market development and in the removal of industrial constraints; and
- iii) Long-Term Strategy, which will be partly based on the National Development Plan to assist in the development of a small business sector in rural areas as a sound base for sustainable economic development (via rural industrialization).

Possible sectoral options have also been identified (Figure 17).

Conclusions/Recommendations

The analysis and conclusions presented have demonstrated (i) the importance and potential of the industrial sector to the Jamaican economy, and to the GOJ which places the greatest hope as the most dynamic sector to improve the economy and generate foreign exchange and employment, (ii) the extent of the problems and constraints besetting the economy in general and the industrial sector in particular and (iii) the crucial need to address the various problems through a long-term development strategy.

It is, therefore, recommended:

1. To retain, as a potential CIDA sectoral strategy, a two-pronged approach combining the alleviation of the foreign exchange constraint in the short term, and the development of small and microenterprises in rural areas in the long term, as the basis for sustainable economic development;

2. To operationalize the sectoral strategy via a combination of bilateral and special program mechanisms (ICDS, NGO's, Industrial Cooperation);
3. To incorporate institutional, as well as human resources development, as part of the sectoral strategy; and
4. When elaborating the overall global strategy, the potential complementarities of the industrial and agricultural sector strategies should be emphasized.

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ACRONYMS

ACB	: Agricultural Credit Bank
BOJ	: Bank of Jamaica
CADEC	: Caribbean Conference of Churches
CARICOM	: Caribbean Common Market
CEO	: Community Economic Organization
CVSS	: Council of Voluntary Social Services
DVCF	: Development Venture Capital Financing
EDF	: Export Development Fund
GOJ	: Government of Jamaica
HEART	: Human Employment and Resource Training
IDB	: Inter-American Development Bank
ITC	: Industrial Training Centre
JDB	: Jamaica Development Bank
JECIC	: Jamaica Export Credit Insurance Company
JETCO	: Jamaica Export Trading Company
JFOW	: Jamaica Federation of Women
JIDC	: Jamaica Industrial Development Corporation
JMA	: Jamaica Management Association
JNEC	: Jamaica National Export Corporation
JNIC	: Jamaica National Investment Corporation
JNIP	: Jamaica National Investment Promotion
MIC	: Ministry of Industry and Commerce
NDB	: National Development Bank
NDFJ	: National Development Foundation of Jamaica
NIDCO	: National Industrial Development Company
PFP	: Projects for People
PIC	: Premier Investment Corporation
PSOJ	: Private Sector Organization of Jamaica
QR's	: Quantitative Restrictions
SBAJ	: Small Business Association of Jamaica
SBDC	: Small Business Development Centre
SBLB	: Small Business Loan Board

SDC	:	Social Development Commission
SEDCO	:	Small Enterprise Development Corporation
SIFCO	:	Small Industries Finance Corporation
SRC	:	Science Research Council
SSE	:	Small-Scale Enterprises
UNDP	:	United Nations Development Program
USAID	:	U.S. Agency for International Development
UWI	:	University of the West Indies
WB	:	Women's Bureau

1.0 INTRODUCTION

CIDA's Jamaica Desk retained Jamaica's industrial sector (including small and microenterprises in the informal sector) as a possible area of intervention within the scope of CIDA's Country Program Review. A sectoral desk study on industry, based on the limited information available has revealed that the potential of the industrial sector was characterized by (a) the recovery of the modern manufacturing sector, and (b) the generation of employment and utilization of indigenous nontraditional raw materials by the informal sector. As a result, due to the lack of in-depth knowledge of the sector, it was decided that a reconnaissance mission was necessary to complete the review through a field assessment/analysis in order to identify more precisely the potential options for Canadian assistance.

1.1 Objectives of the Mission

The main objectives of the mission were: (a) to determine the present socio-economic conditions prevalent in the industrial sector and identify the developmental constraints; (b) to determine if the industrial sector needs to be retained as a sector of concentration; (c) to translate this concentration into privileged subsectors; and (d) to develop a strategy and possible options for CIDA's intervention. (See Terms of Reference Appendix 1.)

Figure 1 shows in graphic form the approach taken to determine if the industrial sector should be retained as a sector of concentration and to subsequently develop a strategy for CIDA and identify possible options.

In addition to the above objectives, the final objective was to provide CIDA with the elements for (i) establishing a CIDA strategy in the industrial sector and (ii) establishing a global strategy taking into account multisectoral complementarities.

OBJECTIVES

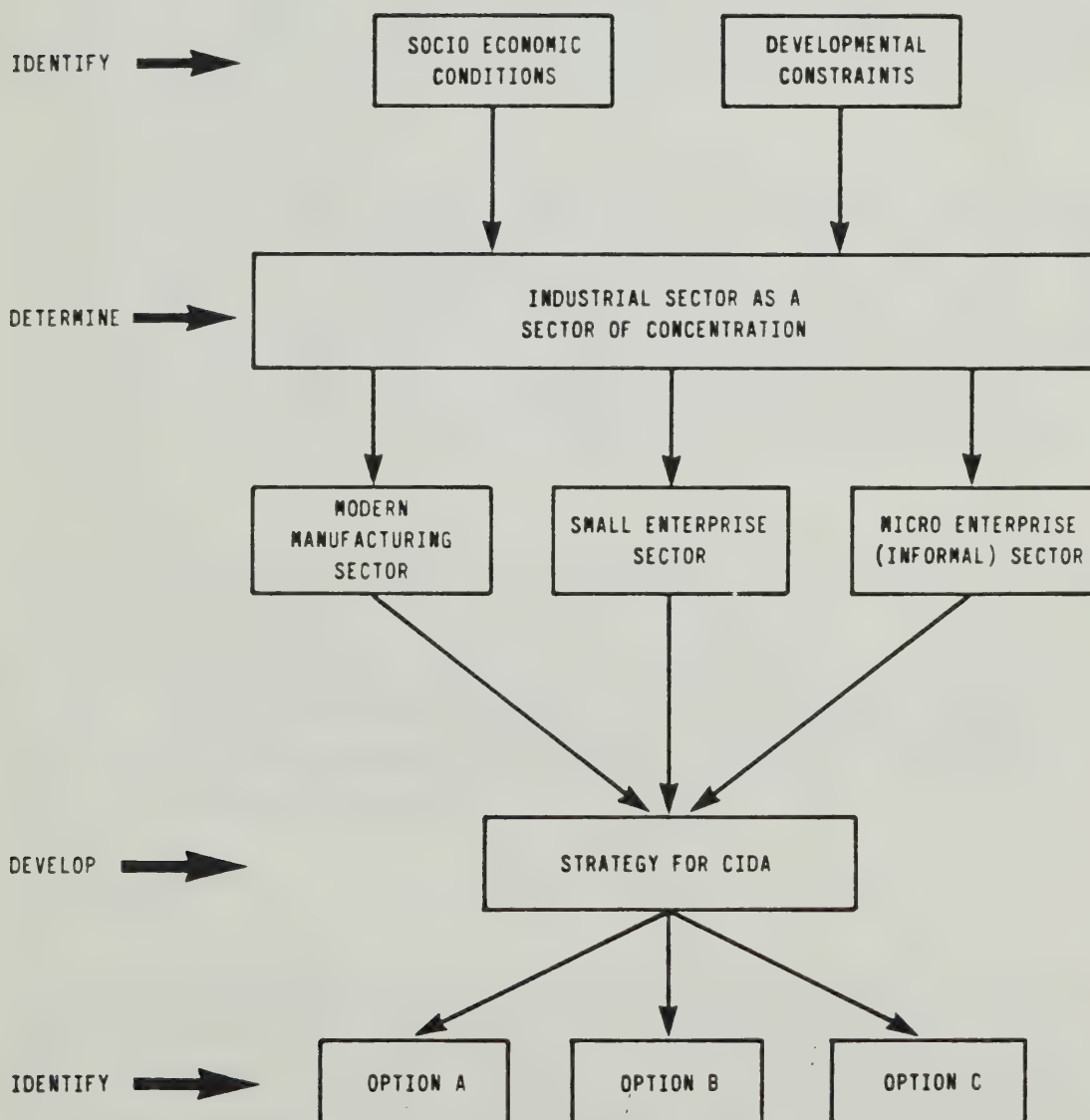


FIGURE 1

1.2 Constraints and Limits

The industrial sector review mission to Jamaica had to confront timing constraints as it had been prepared on very short notice. In fact, due to the requirements of the CPR schedule, it was necessary to carry out the field mission to Jamaica before expected. Indeed, it would have been more logical to go after the agricultural mission had been debriefed on its return to CIDA-Hull. Furthermore, it was the first CIDA mission to review the complex Jamaican industrial sector and only two and a half weeks were available to achieve this task.

A serious constraint causing some obstruction to the mission investigation was the complexity of the institutional framework. The situation has been exacerbated with the outcome of the new government where new institutions/organizations have been created, some of which almost duplicating what the previous ones used to do, as well as difficulties in getting an official position on important issues -- everything being related to the Prime Minister's Office.

At the field level, the mission had some delays in getting started due to the few number of interviews arranged at the beginning. This had some repercussions at the end of the mission in not being able to attend all planned visits. Also, a communication problem arose when the mission missed by one day Expo-21, which was the most important exhibition for microenterprises and crafts ever held in Jamaica.

1.3 Methodology

Following an analysis of the documentation available on Jamaica at CIDA-Hull and visits to the World Bank, USAID, IDB and CPDF in Washington, D.C., a sectoral profile setting out a preliminary overview of Jamaica's industrial sector was prepared for CIDA's Jamaica Desk during the preparation of the CPR.

Considering that three-quarters of the total number of small enterprises and 60 percent of the work force of the manufacturing sector is located in rural areas, it was quite logical to place the emphasis on small-scale enterprises (SSE) and the informal sector (microenterprises and handicrafts). However, due to the lack of direct knowledge of Jamaica's industrial sector, the field investigation was kept wide in scope so as to not eliminate prematurely other sectors of possible intervention.

In Figure 2, we present a model which corresponds to the methodology used during the industrial sector review mission in Jamaica. The model shows the multiple variables, influencing the economic environment faced by the small business sector, and the mechanism utilized to arrive at alternatives and possible options for CIDA's intervention.

In applying this model, two key elements have been considered: (i) the rationale for retaining the sector which is a combination of macro/microeconomic approach; and (ii) the identification of program elements from problems and constraints.

METHODOLOGY/INDUSTRIAL SECTOR REVIEW - JAMAICA (SMALL AND MICRO ENTERPRISES)

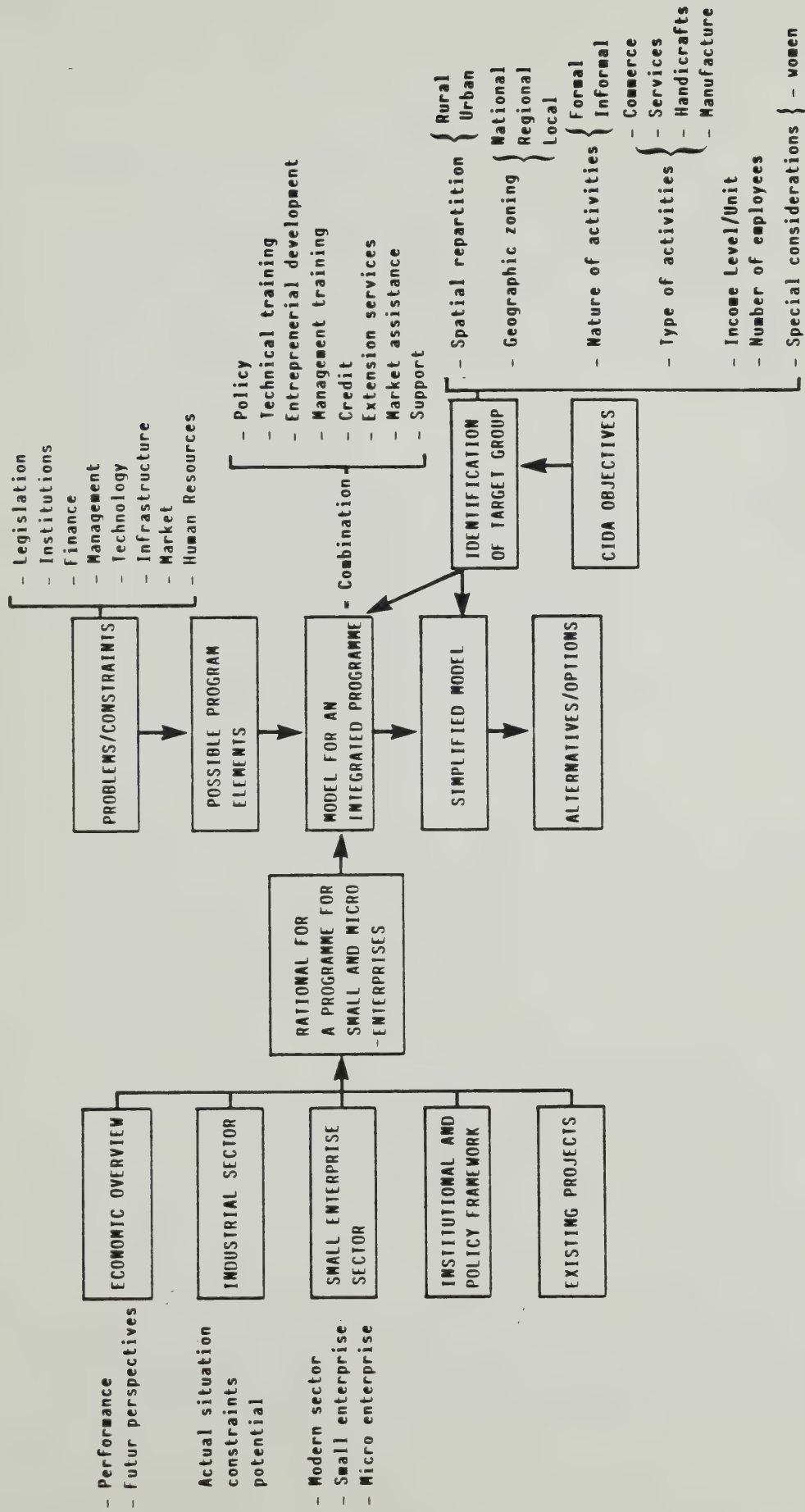


FIGURE 2

1.4 Overall Approach/Field Work

The overall approach, which is distinct from the methodology itself, is the way in which the proposed methodology described in section 1.3 was implemented through field work, in order to know the reality of Jamaica's industrial sector within the Jamaican context. (In a sense, it is the way of translating theory into reality).

As described in Figure 3, there are five major areas of concentration, represented by five interfacing circles. These are (i) the policies and strategies implemented by the different government departments; (ii) the financing provided by Jamaica's banking system; (iii) the different mechanisms applied by the numerous specialized institutions; (iv) the projects from international aid organizations; and (v) the industrial enterprises themselves, particularly those forming the private sector (i.e., modern manufacturing, small enterprises, informal sector).

From these five areas of concentration, we have been zooming out to understand the Jamaican context and zooming in to understand the reality. We have then compounded that understanding of reality by (a) an overview of the overall economic reality; and (b) a deep understanding of the human reality through numerous personal contacts at all levels, but particularly with small business and the informal sector.

This holistic approach has enabled the mission not only to understand the complexities of the overall institutional context, but most of all to relate it to the socio-economic reality of the country.

1.5 Field Visits

As indicated earlier, the mission has taken a holistic approach when implementing the proposed methodology, and this was translated in terms of numerous personal contacts with enterprises, organizations and individuals.

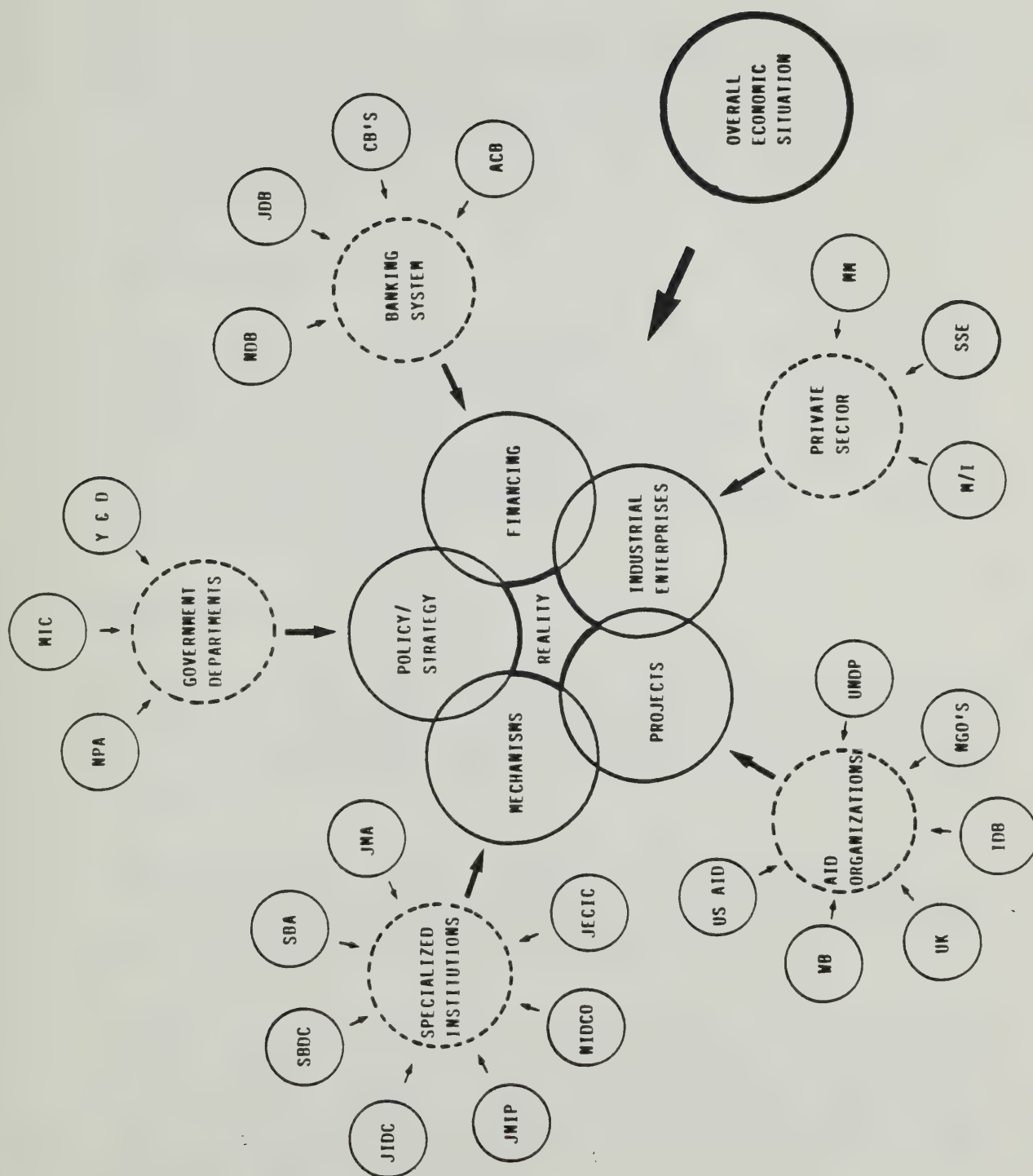


FIGURE 3

Figure 4 shows the different groups contacted, which include international aid organizations, financial and other institutions, government departments, NGO's, enterprises, conferences and seminars, and other contacts. In all, 75 meetings were attended (65 in Jamaica) and about 150-160 people were contacted.

1.6 Mission Composition

The mission team to Jamaica was composed of Mr. J.C. Lorin, Chief of Industrial Services, Natural Resources Division, CIDA, team leader, to cover the aspects related to SSE, development industrial financing and institutional infrastructure, and Mr. J. Ayala, industrial development specialist, to cover industrial development and agro-industries. The field mission in Jamaica took place October 10-28, 1983.

1.7 Report Structure

In this introductory chapter, we present the objectives of the mission, the constraints and limits encountered during the field mission, the methodology and overall approach of field work, the field visits conducted and the mission composition.

Chapter 2, Context, provides a glimpse of present economic conditions in Jamaica, and analyses the government and industrial sector strategy, the existing institutional framework and the financial sector.

Chapter 3, Industrial Sector, reviews the performance and structure of the modern manufacturing sector and the small and microenterprises sector; analyses the main problems and constraints hindering the industrial sector; presents the most important donors contributing to the sector; and summarizes a government policy/strategy for SSE.

Chapter 4, Elements for a Possible CIDA Strategy, is mainly concerned with the development of a CIDA strategy and possible options for CIDA

LIST OF CONTACTS

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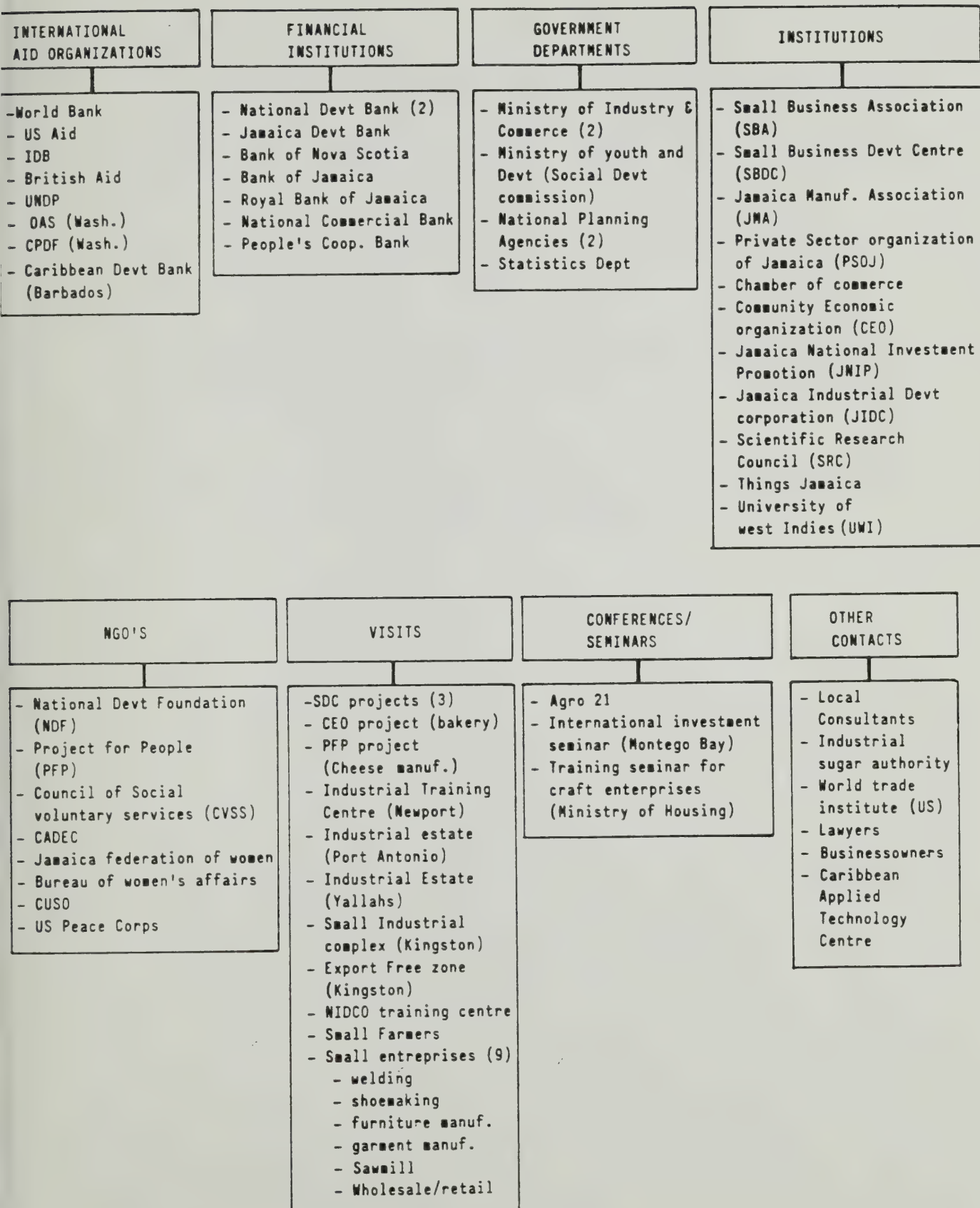


FIGURE 4

intervention. It also provides the rationale and justification for retaining the industrial sector, and two models of development -- Rural Industrialization/Integrated Development Program for SSE -- which could be applied to small and microenterprises in rural and urban areas.

Chapter 5 presents the main conclusions and recommendations. These are also presented briefly in the Executive Summary.

Due to the complexity of Jamaica's institutional framework, with a considerable number of institutions/organizations, a list of acronyms is given at the beginning of the report.

Most of the information given in this report was gathered from field interviews, of which a list of organizations is presented in Figure 4.

2.0 CONTEXT

2.1 Economic Overview/Government Strategy

2.1.1 Past Economic Performance

During the first decade following Jamaican independence, the economy performed very well with real GDP rising at an average annual rate of 5.5 percent. This performance was sustained by significant inflows of direct foreign investment in bauxite and alumina, and in the tourism sector. The surge in foreign investment was complemented by Jamaican savings in excess of 20 percent of GDP. Total investment, including the portion financed with external savings, averaged more than 30 percent of GDP.

This high level of capital formation enabled real output to expand by over 4 percent per annum in 1970-73. Thereafter, however, Jamaica entered a period of protracted economic decline which was precipitated by both international developments and inappropriate domestic economic policies. Between 1973 and 1976, international factors in the form of higher energy prices and weakening demand for Jamaica exports created the need for a period of structural adjustment and austerity in domestic consumption. Domestic policy, however, did not follow the course, as public consumption soared from less than 12 percent of GDP in 1970 to more than 20 percent between 1976 and 1980, and preempted Jamaica's chances for recovery in line with the world economy after 1976.

During the 1972-80 period, unemployment increased by 50 percent and industrial output fell by 33 percent.

2.1.2 Government Strategy

Faced with the above deteriorating economy, the present government has based its new economic strategy on reversing fiscal disequilibrium, freeing market mechanisms and stimulating private sector growth. In order to achieve that, the import substitution strategy that had characterized previous administrations has been scrapped for an export promotion strategy. This outward-oriented economic strategy is based mainly on job creation through the export of manufactured goods and agricultural produce, with heavy reliance on the private sector as the motor of development.

2.1.3 Present Economic Situation

According to World Bank and IMF sources, because of change in political climate and improvement in oil prices, the Jamaican economy grew by 1.9 percent in 1981. Unemployment decreased from 50 percent in 1980 to 26 percent in 1981 and inflation, from 28 percent in 1980 to 4.7 percent in 1981. However, after this short period of recovery, the Jamaican economy started declining again and current prospects are not bright. Indeed, the most important factors contributing to this situation are:

- a) **Foreign Exchange.** The real available foreign exchange has declined fairly steadily with some improvement in 1973-1974, 1978, and most recently, in 1981. This decline stemmed mainly from a decrease of almost 30 percent in outputs of the bauxite/alumina caused by a sharp deterioration of world demand and a decline in tourism. The situation has been exacerbated with Jamaica's foreign debt rising from US\$1550 million at the end of 1979 to US\$2756 million at the end of 1982.
- b) **External Borrowing.** In 1981 and 1982, consumption plus investment totaled 110 percent of GDP, a level of resource use made possible by heavy external borrowing. The present level of borrowing cannot

be continued, and new policies are needed to reduce borrowing needs while building up the economic strength for future growth.

- c) **Private Investment.** It is worth noting that Jamaica has inherited from colonial times a private sector composed essentially of traders, not entrepreneurs. Indeed, most of the recent private capital inflows have not been invested in productive areas but have been spent on consumption and on real estate.

It is estimated that present investment is about half of what is needed, if sustainable growth is to be achieved and productive jobs created fast enough to reduce unemployment, which was about 27 percent during last quarter of 1983.

- d) **Currency Devaluation.** The recent currency devaluation of 43 percent against the US dollar to improve the balance of payments is having negative side effects. Indeed, the GOJ has announced temporary price controls to slow the pace of inflation which now stands at 18 percent (last quarter of 1983), compared with 7 percent in 1982.

2.1.4 Economic Prospects/Outlook

To understand the situation, it is necessary to relate the present government strategy to the status of the overall economic situation. This is presented schematically in Figure 5, which shows (i) how the economic situation has deteriorated despite the government replacement of import substitution/controlled market economy to export promotion/free market economy; (ii) how the government strategy relies on the industrial and agricultural sectors to create employment and generate foreign exchange; and (iii) how the main thrust is now geared to the export of net earners of foreign exchange crops to hard currency markets, as elucidated in the Agro-21 program.

ECONOMIC SITUATION

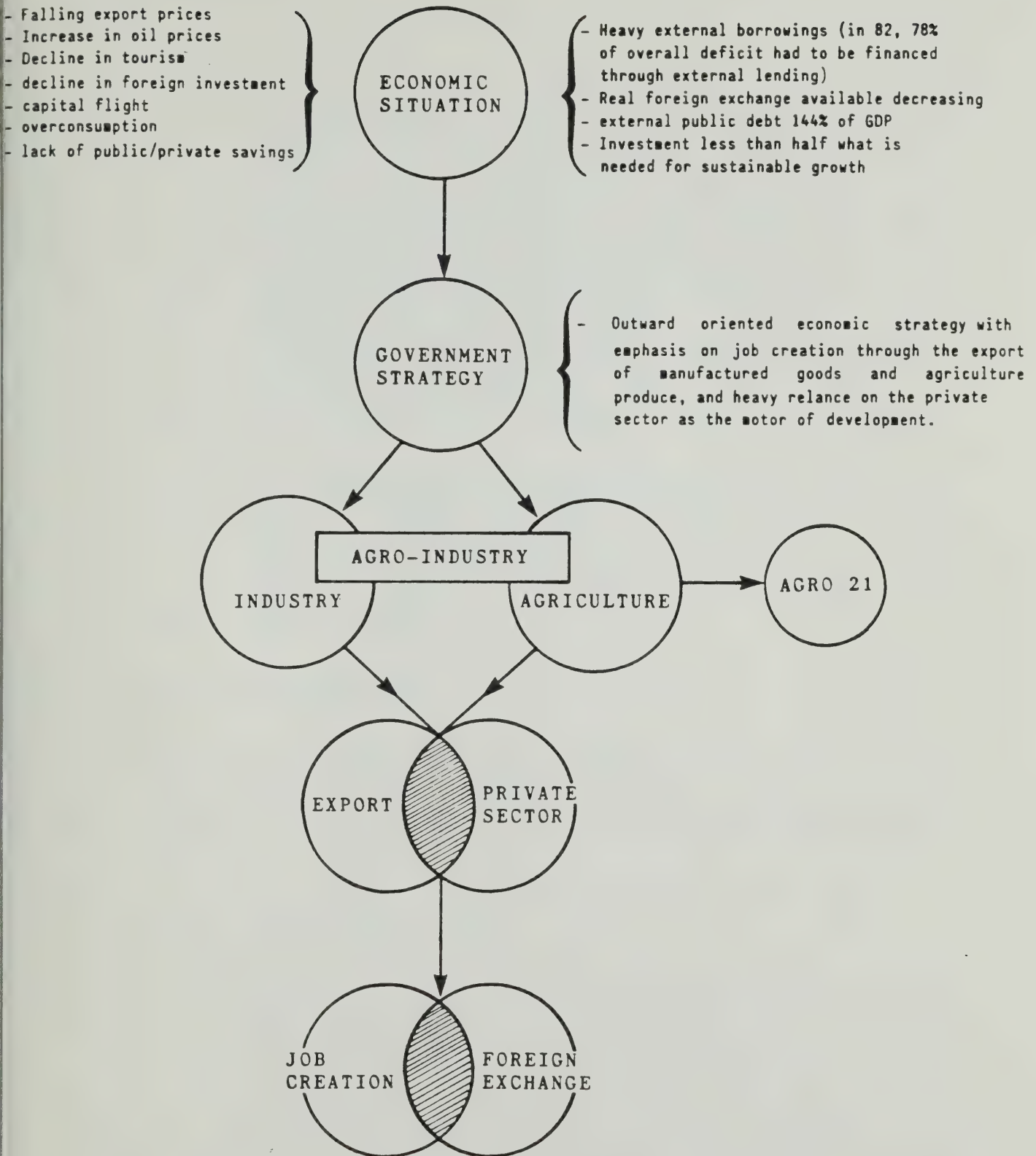


FIGURE 5

It has been demonstrated in section 2.1.3 that the present economic situation in Jamaica is critical. Indeed, we have seen in section 2.1.2 that the present government strategy is focused on the generation of foreign exchange as if it were an end in itself, and as if foreign exchange would necessarily induce development. Furthermore, the present government strategy is based on the assumption that the private sector will make it work. Unfortunately, there is considerable doubt that the private sector can become efficient enough, fast enough, to get in on the ground floor of the CBI in order to compete in other hard currency markets.

Therefore, if the present policy regime is not reformulated very soon in a coherent and credible way, then further decline is inevitable and a liquidity crunch possible. Our analysis is, therefore, very much consistent with the "worst case scenario" underlined in L. Baron's report.

2.2 Industrial Strategy/Reality

In the previous section, we have related the global government strategy to the overall economic situation. To complete the analysis, it is now necessary to undertake the same exercise but this time focusing on the industrial strategy itself.

2.2.1 Past and Present Strategy

Industrial strategy in Jamaica during past administrations has been based on an import substitution strategy. As a result, protectionist measures were taken by the introduction of tax concessions and other fiscal incentives. This encouraged the development of domestic market industries to levels of efficiency incompatible with the development of exports. Another important issue affecting the industrial sector has been the anti-export bias of the protectionist system which led to an inward-oriented, somewhat inefficient

manufacturing sector. Despite those inconveniences, often found as a result of this type of strategy, some positive results were achieved in building up a local industrial base.

As indicated earlier, the present government has replaced the import substitution strategy by an export promotion strategy. It has also eliminated part of the previous protectionist system and has developed new mechanisms based on export promotion policies to increase profitability of exports and the availability of foreign exchange to nontraditional exporters, among others.

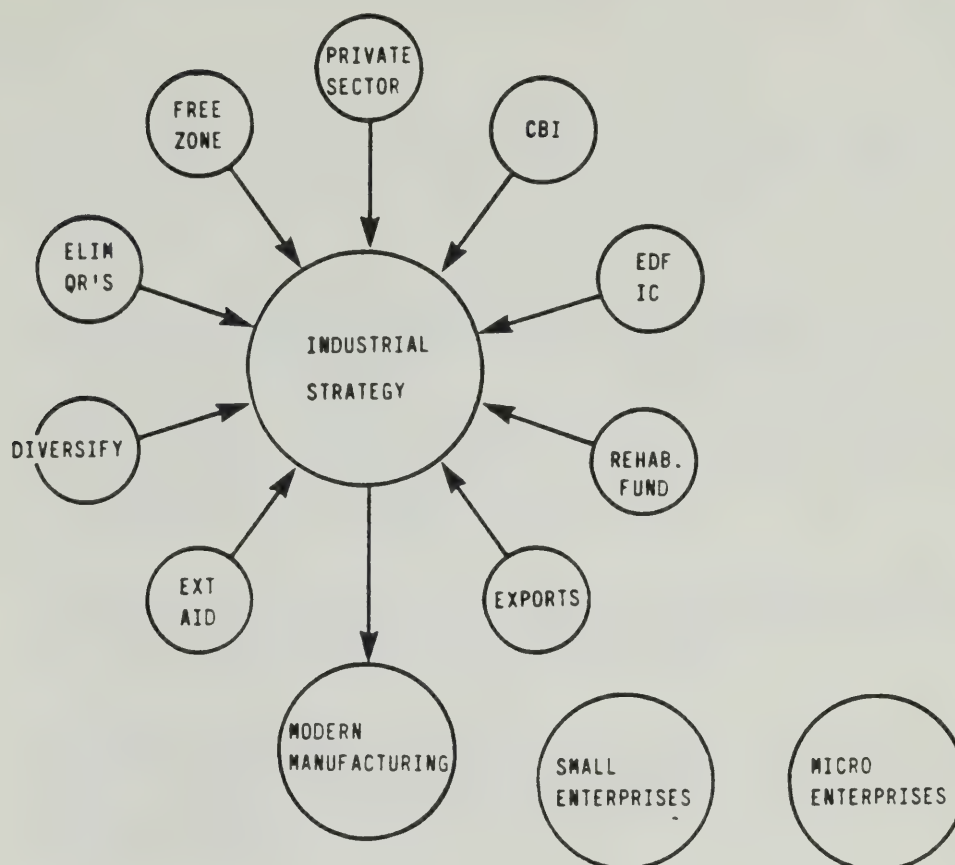
As we shall see in the next two sections, most of the new mechanisms are not performing well, and the sudden change of strategy has induced strong constraints on the local industrial base.

2.2.2 Government Mechanisms

As shown in Figure 6, the present industrial strategy is oriented towards the modern manufacturing sector rather than SSE and microenterprises, and the main mechanisms utilized by the government to implement it are the following:

- **Private Sector** which includes local and foreign investors and on which the government is relying as the motor of development.
- **Caribbean Basin Initiative (CBI)** a policy that combines aid, trade and investment in a carefully constructed mix of measures that together are calculated to give the economies of the Caribbean region the boost needed to lift them to self-sustaining growth and viability.
- **Export Development Fund (EDF)** which was set up to provide foreign exchange for the importation of inputs to necessary exports. The

INDUSTRIAL STRATEGY MECHANISMS



WHAT IS THE REALITY ?

- EDF/IC not performing
- problems with exchange rates system
- problems with exports to CARICOM
- Resistance of private sector (Foreign)
- trading mentality of Jamaican entrepreneurs
- problems with elimination of QR's
- low capacity utilization/low productivity
- lack of medium management
- lack of raw materials
- lack of foreign exchange
- problems with bureaucracy

CONCLUSION:

CURRENT PROSPECTS FOR THE ECONOMY ARE NOT BRIGHT. IF NO CHANGE IN POLICY, FURTHER DECLINE IS INEVITABLE (PSOJ, the Jamaican Economy: a strategy for the 80's)

FIGURE 6

Fund has been replenished three times by the World Bank, with the support of the IDB. The third loan was provided in 1983 for US\$30 million.

- **The Export Incentive Scheme (EIS)** which was established to enable exporters to sell at least part of their foreign exchange at real market value, to permit owners of foreign exchange to buy Jamaican dollars legally through private markets, and to substantially remove the import licensing system.
- **Promoting of Exports** which is the most important mechanism of the present government to generate foreign exchange.
- **Progressive Elimination of Quantitative Restrictions (QR's)** on imports, applied to products originated outside the CARICOM area (334 items in 1979).
- **Rehabilitation Fund** (replenished mainly by the IDB) administered by the BOJ and managed under contract by BOJ's wholly-owned subsidiary Jamaica Export Credit Insurance Corporation (JECIC). The main objective of the Fund is to provide hard currency for the purchase of goods of external origin to private sector manufacturers producing mainly for the domestic market.

2.2.3 Reality

From the above description, one can see that the government has at its disposal an amazing array of mechanisms for implementing its new industrial strategy, but are the results as good as the instruments? In other words, what is the reality and how well are these mechanisms performing?

- a) The trading mentality of most Jamaican entrepreneurs, who prefer short-term investment (commerce, services) rather than long-term

investment in processing operations, has impeded the government efforts to promote local industrial investment.

- b) There is lack of confidence and resistance of the private sector (including foreign investors) to invest in long-term capital recovery projects, such as agro-industries.
- c) Low capacity utilization and low productivity of the modern manufacturing sector has reduced export prospects.
- d) The EDF is not performing well, most EDF funds being used to export to CARICOM countries, rather than to hard currency countries. Another problem has been the mismanagement of the Fund.
- e) The potential of the EIS has not been realized yet because it appears that it is narrower in scope than anticipated. Most of the quantitative incentives are to be granted only to nontraditional exporters who comprise only 7 percent of the estimated 1983-84 merchandise exports.
- f) The inappropriate timing in the removal of QR's on imports is creating serious problems of adjustment for many enterprises, particularly for export-oriented firms.
- g) Many other problems and constraints, such as lack of foreign exchange, raw materials and medium-level management; problems with the exchange rate system, with exports to CARICOM and with the bureaucracy have been counteractive to achieving the government original objectives.

2.2.4 Concluding Remarks

We have seen from the above reality that the present government's industrial strategy has not alleviated the critical situation of the industrial sector. In fact, it might have worsened. According to a private sector organization report on the state of the economy: "current prospects for the economy are not bright and if no changes are taken, further decline is inevitable". This conclusion is also applicable to the industrial sector. The main problem is not only that the present strategy is solely short-term and oriented towards the modern manufacturing sector, but mostly that there is a definite lack of a long-term industrial strategy.

2.3 Institutional Framework

The main institutions/organizations serving Jamaica's industrial sector are summarized below.

2.3.1 Export Development

Export development institutions exclusively serve the modern manufacturing sector. These are: Jamaica National Export Corporation (JNEC); Jamaica Export Trading Company (JETCO); and Jamaica Export Credit Insurance Company (JECIC), which is the most important agency of the Bank of Jamaica. JECIC guarantee system for exports does not reach SSE.

2.3.2 Investment Promotion

Investment promotion is also exclusively provided for the modern manufacturing sector by the following institutions:

- Jamaica National Investment Promotion (JNIP) has the role of promoting and facilitating private investment. It has a small

industrial department to deal with small business (assets up to J\$300,000, excluding land and buildings). The role of JNIP used to be covered by the Jamaica Industrial Development Corporation (JIDC). Now JNIP looks after investment promotion while JIDC provides physical infrastructure and extension services to industry. Despite the strong investment promotion drive undertaken by JNIP, including the investment seminar "Jamaica - Location for the 80's" at Montego Bay, foreign response to investment opportunities has not been forthcoming yet.

- **National Industrial Development Company (NIDCO)**, a subsidiary of JIDC, was set up during the present Administration to aid in the Structural Adjustment of the Jamaican Economy (SAJE) policy, as it relates to industry, through the promotion, development and training of basic export-oriented manufacturing industries. Basic priority industries are garments, footwear and leather, agro-industry, food processing and automotive accessories.

Despite its broad mandate, it does not appear that NIDCO has been very efficient at coordinating/implementing the necessary structural adjustments to the economy. They have been mostly involved in somewhat minor training activities.

2.3.3 Financing

Most financing institutions provide financial assistance exclusively to the modern manufacturing sector. These include the National Development Bank (NDB) and most of the nine commercial banks. The People's Cooperative Bank, which receives funding from the Agriculture Credit Bank, provides credit to small farmers. The National Foundation of Jamaica, which is a nongovernment organization, provides credit to small and microenterprises.

The financial sector is discussed in detail in paragraph 2.4 of this report.

2.3.4 Research and Development

R&D is provided by the Scientific Research Council (SRC) and by the University of the West Indies (UWI). SRC mainly provides information to small business, mostly of the upper part of the scale.

2.3.5 Infrastructure

Physical infrastructure for industrial purposes is provided exclusively to the modern manufacturing sector by Jamaica Industrial Development Corporation (JIDC) and by the Export Free Zone (Kingston Free Zone Co. Ltd.).

Jamaica Industrial Development Corporation (JIDC) provides factory space on a long-term lease basis in the form of buildings and industrial estates, technical and managerial services, and project implementation. JIDC is one of the oldest institutions established in Jamaica for the industrial sector, and used to play, in addition to its present role, that of JNIP. In other words, what used to be done by one organization now is done by two. JIDC operates various industrial estates and small industrial complexes through a CDB loan. Their project monitoring, however, is not very efficient. The field mission found that some of the enterprises operated by JIDC had very low capacity utilization and, in one particular case, a production line has been inoperative for two years without the knowledge of JIDC.

The Kingston Free Zone Co. Ltd., which is an export-oriented industrial estate, offers investors assistance to operate manufacturing plants, warehousing facilities or assembly/packaging operations, with a number of incentives, such as tax exemptions, duty-free items, and repatriation of profits. Of the 115 acres owned by the Company, only 15 acres are utilized by 12 companies and 5 empty factory shells.

2.3.6 Professional Associations

The known acting associations in Jamaica are:

- **Private Sector Organization of Jamaica (PSOJ)** which has about 500 members mainly in Kingston with a fee of approximately J\$250 per year. Most members are involved in import/export and distribution. PSOJ is trying to be an umbrella organization and to become directly involved in the planning process. (They have prepared a report on the state of the economy.) PSOJ is not focused on small-scale enterprises, as they feel that SSE cannot have a real impact on the CBI.
- **Jamaica Manufacturer's Association (JMA)** which has about 600 members in small- and medium-size business (5 to 25 employees). About 70 percent of its members are located in Kingston, and 20-25 percent are involved in exports. It seems that JMA has some financial problems, as it has been trying to obtain financial assistance to supplement membership dues. In addition, it has not been able to disburse its import quota.
- **Small Business Association of Jamaica (SBAJ)** which has about 700 members mainly in Kingston and an annual fee of J\$40 to \$100. This association is mostly involved in information dissemination and in lobbying in government circles providing also, to a limited extent, some technical assistance, counseling, training courses and workshops, as well as bulk purchasing of raw materials, particularly for small business. SBAJ is receiving some financial assistance from USAID. They plan to go in rural areas to get more members. It seems that their assistance to members is not very effective.

2.3.7 Nongovernment Organizations (NGO's)

NGO's deal particularly with the informal sector (rural and urban small and microenterprises, cottage industries and crafts).

- **Council of Voluntary Social Services (CVSS)** is a coordinating body for 56 NGO's. It provides financing, training and business assistance to projects involved in creating economic activities that are a direct follow up to training (e.g., home economics). USAID will provide a US\$3-million loan for five years to CVSS, setting up a special unit to administer the funds. CVSS has two offices in the rural areas of Montego Bay and May Penn. CVSS member agencies are now getting more involved in creating economic activities as a direct follow-up to training, for example, in home economics. The problem with CVSS member agencies is the lack of adequate project funding and management skills, which leads to failure for an important number of projects.
- **Caribbean Conference of Churches/CADEC** is a Caribbean-based holding company with headquarters in Barbados. Its project development unit is supporting a number of small projects, such as shoemaking, pottery and small farming. CADEC has 60 loans and grants totalling about J\$1,000,000 and 10 more coming up for about J\$400,000. However, it has some problems with loan collections. They expressed the need for seed money for NGO projects.
- **Projects for People (PFP)** was established in November 1979 and operated with CUSO from that date to mid-1983. It receives administration funding support from CEBMO of Holland and Oxfam of the U.K. PFP provides credit and extension services to a small number of projects focused on appropriate technology. It has received US\$250,000 from IDB for four of the eight projects in operation.
- **National Development Foundation of Jamaica (NDFJ)** is a private, nonprofit organization set up in November 1981 to provide small business with financial, technical and business assistance. NDFJ has received a grant of US\$500,000 from USAID and will receive another US\$6 million (\$3-million grant and \$3-million loan) from the

same agency. However, USAID does not provide foreign exchange funding. As of March 1983, 96 loans to small business had been committed with an average of J\$4,300 per loan. The action of NDFJ is mostly in Kingston but has recently established offices in Mandeville and Montego Bay. It intends to put in future more emphasis on technical assistance and extension services. It is presently the only Jamaican institution providing credit and technical assistance to small and micro business.

- **Jamaica Federation of Women (JFOW)** was established 40 years ago. Its major role is to provide training and marketing assistance to its 5,000 members (used to be 20,000 women) who are mainly involved in craft work, woodwork, embroidery and related activities. JFOW needs financing and technical assistance to upgrade member skills (products are difficult to sell due to their substandard quality) and intends to get more involved in development of economic activities.

2.3.8 Training

Training institutions are mainly oriented towards the modern manufacturing sector, with the exception of HEART and SBDC which also provide training (at least in theory) to small and microenterprises.

- **Industrial Training Centre (ITC)** has been established since 1968. It provides vocational training in the major trades (metalwork, woodwork, electrical, etc.) to persons between 17 and 35 years of age. Recently the number of centres (estimated at 32) has considerably decreased because trainees have difficulty finding jobs after graduation. Besides, ITC has financial problems and the present government seems to want to replace it with the HEART program. Whatever the future of ITC, its difficulties underline the fact that "training" and "formation" alone does not necessarily lead to employment creation.

- **Human Employment and Resource Training (HEART).** The HEART program was set up 16 months ago by the GOJ to provide skilled persons to meet existing and projected training needs of the economy in both public and private sectors. The main areas of attention are in the government, agriculture, craft, building and a special-leave school program. The overall program will aim at an output of 1,000 agricultural workers and 7,000 persons in the building and construction trade over three years. The reality is that while ITC is being phased out, the HEART program is not fully operational. In addition, the major issue of integration of HEART graduates within the Jamaican economy has not been given proper attention by the GOJ and could easily jeopardize the outcome of the overall program, as lack of job opportunities will lead to increased urban migration and social dissatisfaction.
- **Small Business Development Centre Ltd. (SBDC)** is a private, nonprofit company set up in 1968 to provide a range of services, such as training and consulting services to the small business sector. SBDC has a pool of consultants on a part-time basis. Only firms with gross annual sales not exceeding J\$300,000 qualify for their services.

The reality is that SBDC has tried to expand too fast, is not really operational and has limitations with the services they provide.

2.3.9 Government Institutions/Organizations

- **Ministry of Industry and Commerce (MIC)** is mainly oriented to the modern manufacturing sector, and the emphasis on SSE is always in manufacturing and not on retail or services. Craft development responsibility lies in the Prime Minister's Office, but is not translated into either direct strategy or action.
- **The Ministry of Youth and Development** has two departments dealing with small and microenterprises. These are:

- i) **Social Development Commission (SDC)** involved in establishing community centres and training in social and technical skills (home economics, day care, craft and needlework, etc.). SDC has trained over 6,000 persons (80% women) since it started, and it has sale counters in most parishes.

SDC which has links with CEO and HEART would like to move into developing economic activities and other small business operations but lacks financing and business know-how.

- ii) **Women's Bureau (WB)** mainly involved in social work, small-scale enterprise development and the creation of economic activities. The creation of the WB in 1978 indicated the significant level of attention given to the participation of women in the development process. Since its inception, the WB still functions as a catalyst for the formulation of new policies, as well as an instrument for monitoring their implementation. It now has two centres -- one in Kingston and one in Mandeville.

- **The Ministry of Housing** also has two departments dealing with the small business sector. These are the Economic Enterprise Unit which provides, among other services, training seminars to small business entrepreneurs as a prerequisite to NDF funding, and the Urban Development Centre.
- **Community Economic Organization (CEO)** is a government-sponsored organization providing financing and technical and business assistance for community-oriented projects, which are considered to be potentially viable business ventures operating on a cooperative basis.

CEO has received a US\$500,000 loan from IDB. CEO has financed 70 projects at low interest rates and long repayment periods, depending on the type of project, each averaging J\$60,000 (equity and working capital).

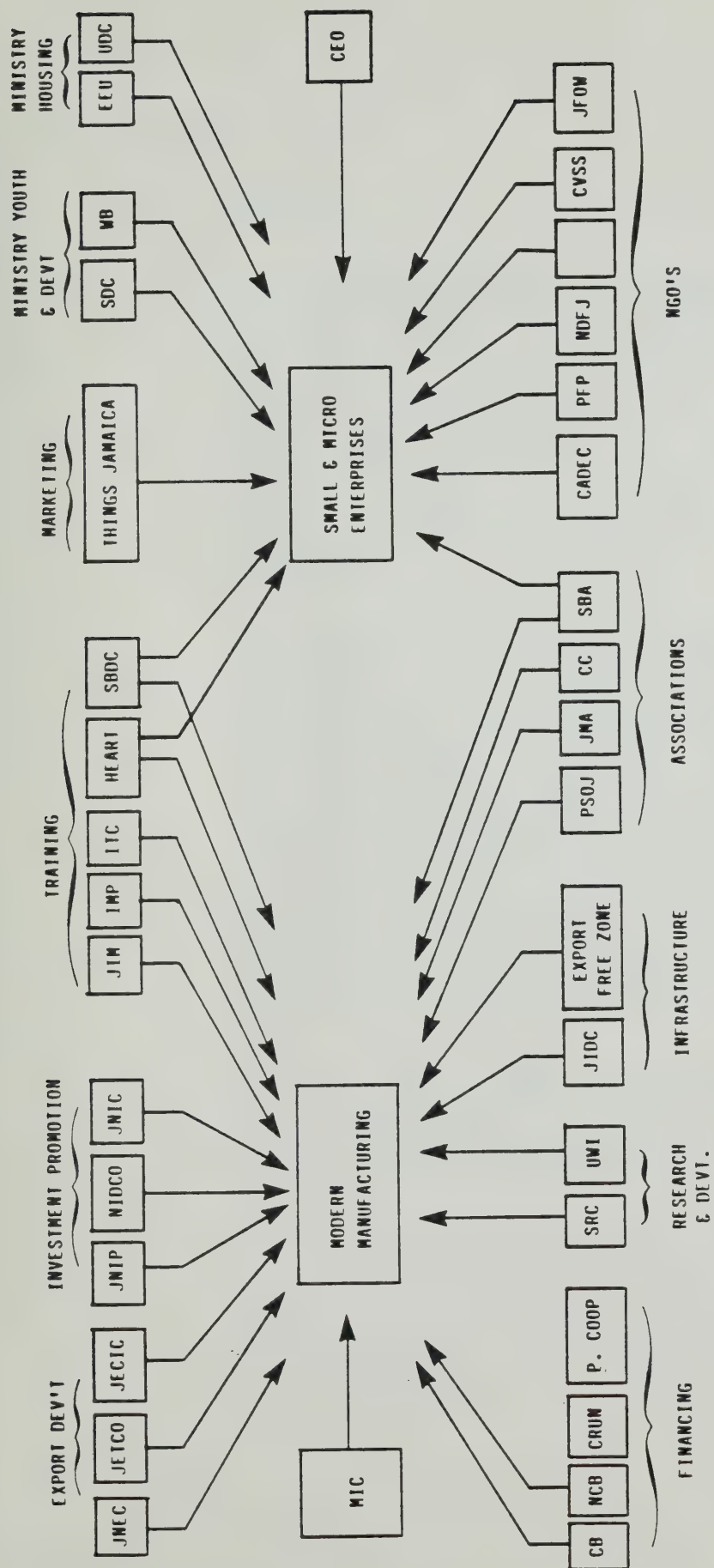
The reality is that most of CEO projects are either stopped or in serious difficulties. It may be due partly to the lack of financing from CEO head office, but also to the need for proper project monitoring and for provision of technical and business assistance.

2.3.10 Marketing

Things Jamaica Ltd. is a government-sponsored organization providing marketing and extension services to its customers to sell their craftwork. It deals with over 4,000 craft people and could expand much more; but it has many problems hindering its expansion, such as the lack of foreign exchange to purchase raw materials and tools, and the lack of financing and training facilities. It did approach USAID for financial assistance without success.

2.3.11 Concluding Remarks

As we have seen in the preceding paragraphs, Jamaica's institutional framework is quite complex with overlapping of activities and lack of proper coordination. Figure 7 shows that most of the institutional support is directed towards the modern manufacturing sector, while a few institutions deal with the informal sector (small and microenterprises). In addition, the elimination of certain financial institutions by the new government has created a void, particularly in the small business sector.



INSTITUTIONAL FRAMEWORK/INDUSTRIAL SECTOR

FIGURE 7

2.4 The Financial Sector

2.4.1 Background

The Jamaican financial system is relatively well developed, and its commercial banking system represents the most important institutional mechanism for mobilizing and allocating resources in Jamaica. Financial institutions include the Bank of Jamaica (central bank); 9 commercial banks with 150 branches; other specialized institutions, such as merchant banks, trust companies, building societies and a mortgage bank; and development finance institutions.

Until mid-1981, there were three public development finance institutions involved in industrial lending, namely, the Jamaica Development Bank (JDB), the Small Industries Finance Co. (SIFCO) and Premier Investment Corporation (PIC). In 1981, the new government decided to gradually phase out all these institutions and establish the National Development Bank (NDB) as the only public sector bank to provide financing through commercial banks and other financial intermediaries. At the same time, the government established the Agricultural Credit Bank (ACB) to consolidate public sector financing in the agricultural sector.

Previous to 1981, the modern manufacturing sector was served by the JDB which provided medium- to long-term financing. The commercial banks provided short-term financing.

At the small business level, there were the PIC which administered the guarantee fund and three financial institutions -- the Small Business Loan Board, the Small Enterprise Development Corporation and the Development Venture Capital Financing which, in 1979, were replaced by SIFCO.

2.4.2 Present Situation

Partly because of the malfunctioning of the previous system and partly because of the new government policy to have the financial system oriented towards the private sector, the financial system has been completely reorganized.

NDB and ACB, the only two remaining development banks, have become strict wholesalers of funds, channelling financial resources to the commercial banking system which now is supposed to assume the role and mandate corresponding to both short-term commercial and long-term development banking. Now, the JDB administers only its existing loan portfolio and collects outstanding loans.

Figure 8 clearly shows the past and present of Jamaica's financial system. While in the past the modern manufacturing sector, as well as the small business sector, was served by a relatively solid financial system, at present, the financial system has deteriorated considerably, particularly as it relates to medium/long-term financing and to financing of the small business sector. This is now served exclusively by the National Development Foundation of Jamaica (which provides limited medium/long-term financing through a revolving loan fund), with no direct access to foreign exchange.

2.4.3 Concluding Remarks

As we have seen, the present situation of the financial system has many weak points and loose ends. Commercial banks are neither interested nor willing to assume the risks of development banking and, therefore, the present financial system is characterized by a void in terms of medium/long-term financing.

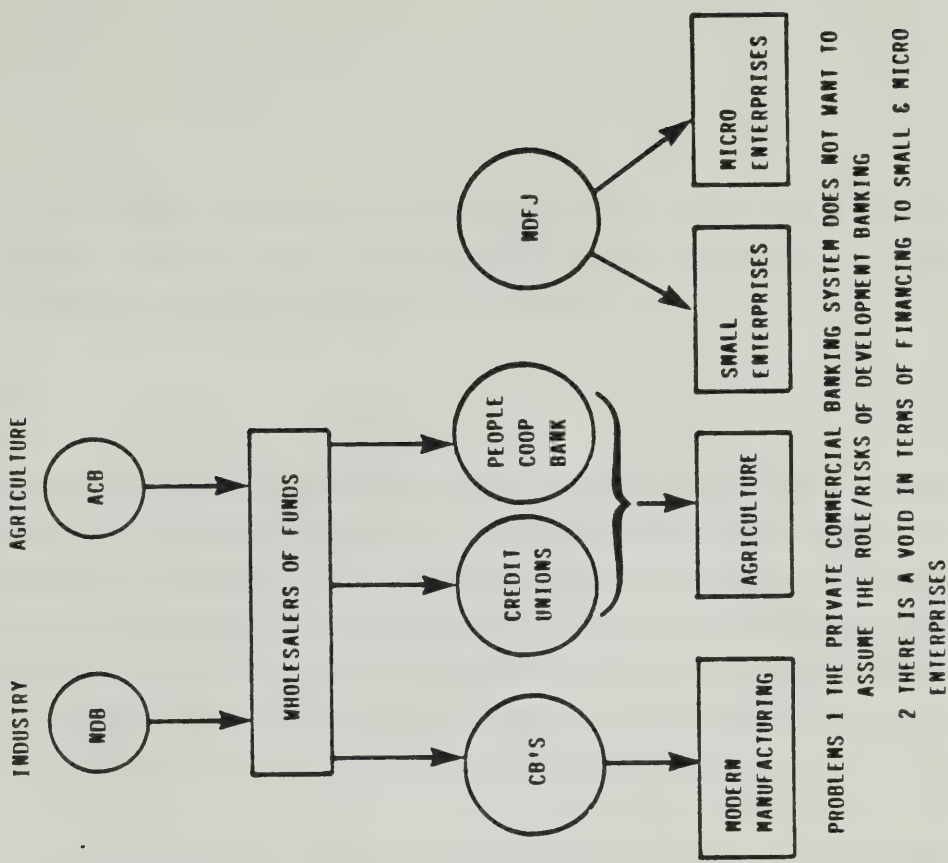
PAST (PRE 1981)PRESENT

FIGURE 8

As it is often the case, the situation is even more acute for the small business sector where general access to credit is a big constraint due mainly to lack of collateral.

2.5 Conclusion

The current prospects for the Jamaican economy are not bright. If the present policy regime is not reformulated soon in a coherent and credible way, then further decline is inevitable. The present government strategy of export promotion, which replaces the previous strategy of import substitution, is not getting the expected results. Indeed, the little economic improvement of 1981 and 1982 has started declining again, and the foreign exchange situation is reaching its limit to the point that a liquidity crunch is possible.

Due to the lack of a long-term, well structured strategy, the present industrial strategy, which is mostly focused on the export-oriented manufacturing sector, has not alleviated the critical situation of the industrial sector. In addition, most of the mechanisms used to boost the present industrial strategy are not performing well. Therefore, a worst case scenario is possible.

The Jamaican industrial sector has a comprehensive but complex institutional framework, with some institutions almost duplicating the role of those being replaced by the new government. Most of the institutional support is directed towards the modern manufacturing sector, with few institutions dealing with the informal sector.

The financial sector does not address the needs of small entrepreneurs. While most of the financial credit goes to the modern manufacturing sector and large enterprises, small and microenterprises have little or no access to credit. In addition, the elimination of certain financial institutions has created a void, particularly in the small business sector. Furthermore, the new government policy of having NDB and ACB become wholesalers of funds for the private sector has left a void in terms of medium/long-term financing, as commercial banks are neither interested nor willing to assume the risks of development banking.

3.0 INDUSTRIAL SECTOR

3.1 Background

One of the most striking features of Jamaica's industrial sector is that it is relatively varied for a country of just over 2 million inhabitants. Although the initial impetus for industrial development came from the demands of the sugar and other food subsectors, the sector now produces a wide variety of manufactured products, from garments and processed foods to machinery and electrical equipment. This gradual diversification occurred in the sector primarily in respect to a vigorous policy of import substitution, despite the small size of the local market.

Not only did manufacturing become more diversified, but the sector also grew in relation to the rest of the economy. In 1950, manufacturing accounted for 11.3 percent of GDP, a share which increased steadily to 15.7 percent in 1970 and to 18.6 percent in 1977. By that year, manufacturing had become the largest sector in terms of its contribution to GDP.

In this context, the industrial sector is considered in its largest sense. This includes modern manufacturing (public and private sectors), small-scale enterprises (formal or informal) and microenterprises and crafts in urban and rural areas (generally the informal sector).

3.2 Performance/Recent Evolution

Manufacturing is the great hope of the Jamaicans in the 1980's but it is not clear that these hopes are realistic, especially about what must be done to compete successfully with other industrializing countries. In this regard, it should be noted that manufacturing reached a peak in the early 1970's, accounting for 18.6 percent of GDP in 1977; thereafter, it declined 31 percent in real terms to 14.8 percent of GDP before reaching bottom in 1980. While most subsectors declined, some of the most important, such as footwear, furniture, nonmetallic products, and metal and machinery, fell by more than 50 percent.

Since 1980, the manufacturing sector has accounted for an average of about 15 percent of GDP and 11 percent of the employed labour force. Exports of manufactured goods were also up from previous years to US\$133 million in 1982. Thus, modest gains are being realized in expanding Jamaican manufacturing, especially making it more export-oriented. However, as we have seen in the Economic Overview of this report, future economic prospects are not bright, and this temporary increase in performance could be a reflection on the improvement of the world economy.

3.3 The Manufacturing Sector

The structure of Jamaica's manufacturing sector remains largely organized in medium-size factories with a few large establishments mainly in the public sector. There are approximately 1,250 factories with an estimated work force of 50,000 and an average of 40 workers per factory. Only a few plants operating in food, beverages and tobacco processing have a work force of over 500. These subsectors, together with footwear manufacturing, oil refining, tire manufacturing and production of packaging materials, have also the highest degree of industrial concentration, with a small number of enterprises controlling major shares of domestic market production. It is also worth noting that subsectors, such as furniture and fixtures, had an accumulated decline of 71 percent by 1980, while tobacco and alcoholic beverages fell by 2 and 7 percent, respectively.

The modern manufacturing sector is composed of a combination of private and public enterprises. The private sector includes most of the export-oriented manufacturing companies, predominantly owned by foreigners, and large enterprises and multinationals owned and/or controlled by foreigners.

According to the government's listing of public sector organizations, in March 1980 there were 277 public enterprises in Jamaica, some of which were inactive. These enterprises covered a wide spectrum of goods and services, including public utilities and items as diversified as bananas, meat, sugar, garments, hotels, spas, food processing, furniture production, and others.

The situation of the manufacturing sector is not encouraging. Indeed, most of the manufacturing enterprises visited by the field mission were having, in addition to the many problems besetting the sector, a very low capacity utilization. One food processing operation had been shut down for two years due to a lack of raw materials and spare parts, while an industrial estate in the vicinity was an "empty shell". In fact, one of the problems of these enterprises is that they are heavily import-dependent on raw materials.

3.4 Small and Microenterprises

Given the absence of reliable data, an assessment of the contribution of small-scale enterprises to Jamaica's industrial development cannot be exhaustive. The early activities of small business in Jamaica were restricted to handicraft, garments, footwear, repairing and servicing, and commodity trading. Small-scale handicraft, repairing and servicing, and trading were dominant in the very early stages; garment and footwear production developed as the government began to take initial interest in the promotion of small enterprises with the establishment of the Small Business Loan Board (SBLB) in 1956.

Presently, the small business sector has grown considerably with a variety of establishments of different sizes and individuals, particularly in the handicraft trade business. Unfortunately, there are no accurate data to corroborate this fact. The latest definition of "small-scale enterprises" in use in Jamaica is that presented by a Small Business Task Force in January 1983 by dividing the sector in three categories: Bankable Small Business, Small Enterprise and Microenterprise. (These are described in Figure 9, together with information on the importance of the sector.)

According to the above definition, it is difficult, if not impossible, to quantify the number of enterprises and employment for each subsector. However, a

SMALL/MICRO ENTERPRISES

DEFINITION

Micro enterprise	{	net assets < J \$ 50,000 no access to credit loan requirements < J \$ 20,000 less than 5 employees owner managed
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Small enterprise	{	net assets < J \$ 100,000 no access to credit loan requirements < S \$ 50,000 less than 25 employees owner managed
------------------	---	--

Bankable small business	{	net assets (excluding land/building) < J \$ 250,000 less than 25 employees loan requirements < J \$ 100,000
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IMPORTANCE OF SECTOR

38,000 formal small business	{	72% in rural areas 15,000 in small scale manufacturing (40% of total employment) 93% employed 5 or less workers 1/3 labour force are women
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100,000 informal small & micro enterprises

Total work force estimated at 200,000

FIGURE 9

survey * carried out in 1978 provides information on small and microenterprises located in urban and rural areas and employing from 1.5 to 6.9 persons on average. The methodology utilized in that survey indicates that these enterprises could be ranked in the upper scale of the subsector, rather than in the lower scale (mostly the informal sector, such as peddlers or individuals working at home).

The survey estimated the number of small enterprises to be 38,000 establishments employing some 79,000 people. Of these firms, about 13,400 (35%) were engaged in small-scale manufacturing, employing some 29,400 (37%) workers. However, enterprises involved in distribution and other nonmanufacturing services dominated the sector, accounting for 65 percent of total firms and 63 percent of employment. Figure 10 shows that 73 percent of the total number of small enterprises and 60 percent of the work force are located in rural districts (E.D.S.). This contrasts with the modern manufacturing sector in which most enterprises are concentrated in and around Kingston.

Apart from distribution and other nonmanufacturing firms, the most dominant enterprise groups are wearing apparel, crafts, woodwork and repairs.

Nationally, the average number of workers per small enterprise is 2.1. In manufacturing, however, the figure ranges from 1.5 in wearing apparel to 7 in food processing. One third of the labour force are women.

More recent estimates indicate that there could be 100,000 microenterprises in Jamaica employing some 200,000 people (mostly cottage or small family undertakings in rural areas).

* Small-Scale, Non-Farm Enterprises in Jamaica, by O. Davis and Y. Fisseha, MSU. 1979.

SMALL BUSINESS SURVEY

LOCATION	NUMBER OF ESTABLISHMENTS	%	NUMBER OF WORKERS
KINGSTON	4,244	11.2	14,224
MAJOR TOWNS	2,116	5.6	6,614
RURAL TOWNS	3,878	10.3	10,696
RURAL E.D.S.	27,500	72.9	47,750
JAMAICA	37,738	100.0	79,284
FOOD	289	.8	2,001
WEARING APPAREL	5,915	15.7	8,831
CRAFT	3,801	10.1	6,826
WOODWORK	1,191	3.2	3,382
METALWORK	429	1.1	1,668
REPAIRS	1,172	3.1	4,763
OTHER	546	1.4	1,887
ALL MANUFACTURING	13,341	35.3	29,358
DISTRIBUTION	18,677	49.7	36,445
OTHER SERVICES	5,720	15.1	13,481
ALL NON MANUFACTURING	24,397	64.6	49,926
ALL ENTERPRISES	37,738	100.0	79,284

SOURCE: UMI-MSU, 1978 SURVEY

FIGURE 10

3.5 Constraints/Problems

As we have seen earlier, constraints and problems affecting the industrial sector are many. For the sake of clarity, these have been divided into those affecting the modern manufacturing sector and those related to small and microenterprises. Both are presented in Figure 11.

3.5.1 Modern Manufacturing:

The main constraints/problems affecting this sector are the following:

- a) A continuing shortage of foreign exchange at prevailing exchange rates, compounded by inefficient allocation procedures, which leads to a lack of spare parts and raw materials. According to IDB, the external financing needs of Jamaica for imported raw materials and spare parts are estimated to be US\$231 million per year, of which, after counting other external sources (EDF, JAL, Rehabilitation Fund), there is still an unsatisfied need of US\$74 million per year.
- b) The inappropriate timing in the removal of quantitative restrictions on imports, which is creating serious problems of adjustment for many enterprises, particularly for export-oriented firms.
- c) Jamaica's trading mentality, characterized by short-term investment horizons and turnover of stock at high markups, rather than long-term investment in plant and equipment for efficient, large-scale production runs.
- d) Excessive dependence on imported industrial outputs due to duty-free entrance of capital goods and intermediate materials

PROBLEMS/CONSTRAINTS

MODERN MANUFACTURING	SMALL & MICRO ENTERPRISES
<ol style="list-style-type: none"> 1. Lack of Finance (Foreign exchange/working capital) 2. Lack of raw materials 3. Low productivity 4. Lack of management skills 5. Old equipment/machinery 6. Lack of competitiveness on international markets 	<ol style="list-style-type: none"> 1. Lack of Finance (working capital/medium & long term/foreign exchange) 2. Lack of collateral 3. Inadequate demand 4. Lack of raw materials 5. Shortage machinery/spare parts 6. Transportation problems 7. Inadequate supply of fuel/utilities 8. Lack of management skills 9. Lack of government policy/incentives 10. Lack of marketing assistance 11. Lack of institutional support

FIGURE 11

(once the import licenses are granted), and a reluctance of manufacturing operations to integrate backwards so as to utilize domestic agricultural and raw materials inputs.

- e) A bureaucratic maze controlling all aspects of economic activity, which drives foreign investors away and raises costs and uncertainties for Jamaican producers.
- f) Low capacity utilization and premature deterioration of equipment, due to lack of investment and unavailability of foreign exchange for spare parts, raw materials and new equipment.
- g) Lack of management skills due probably to the exodus of skilled labour and professionals during the mid- and late-1970's.

3.5.2 Small and Microenterprises:

The main constraints/problems affecting this sector are the following:

- a) Lack of financing (credit/working capital/foreign exchanges) is the number one constraint affecting the development and expansion of small business.
- b) Lack of insufficient collateral, which impedes the access to credit, and the inability to prepare and present the appropriate information required by financial institutions.
- c) Lack of management skills and business know-how in order to successfully compete and grow. Training needs are: basic business approach, production, financial management, marketing and fundamentals of loan application.

- d) Lack of government policy, incentives and institutional support. Most government policies and strategies are designed/oriented towards the modern sector.
- e) Shortage of machinery and spare parts, and lack of raw materials due to inaccessibility to credit and foreign exchange.
- f) Sluggish demand for their products due to lack of project experience and marketing assistance.
- g) Inadequate supply of fuel and utilities. For example, very few microenterprises in rural areas have electricity.

3.6 International Donors: Programs and Projects

The most important donors participating in, or related to, Jamaica's industrial sector are the World Bank and USAID. Other donor participating in the sector are the Inter-American Development Bank (IDB), UNDP, British Aid, Germany (Industrial Cooperation Program), CIDA (Canada/Caricom - industrial training with FIT), and the GOJ (JIDC-NIDCO: garment factory in Kingston Free Zone). The principal international donors/projects/programs are given in Figure 12.

WORLD BANK: Oriented mainly towards the modern manufacturing sector. The most important projects are (a) the Export Development Fund (EDF), which has been replenished three times with the support of the IDB, amounts to US\$98.7 million. The third EDF loan was provided in 1983 for US\$30 million; and (b) the Structural Adjustment Loan (SAL) for US\$60 million.

USAID: Oriented towards both the modern sector and the SSE sector. The largest project has been directed to alleviate the balance of payments (two loans for US\$138 million). Considerable aid has also been directed towards the SSE sector, NGO's, small business institutions, and social-oriented projects.

PROGRAMS/ PROJECTS/INTERNATIONAL DONORS

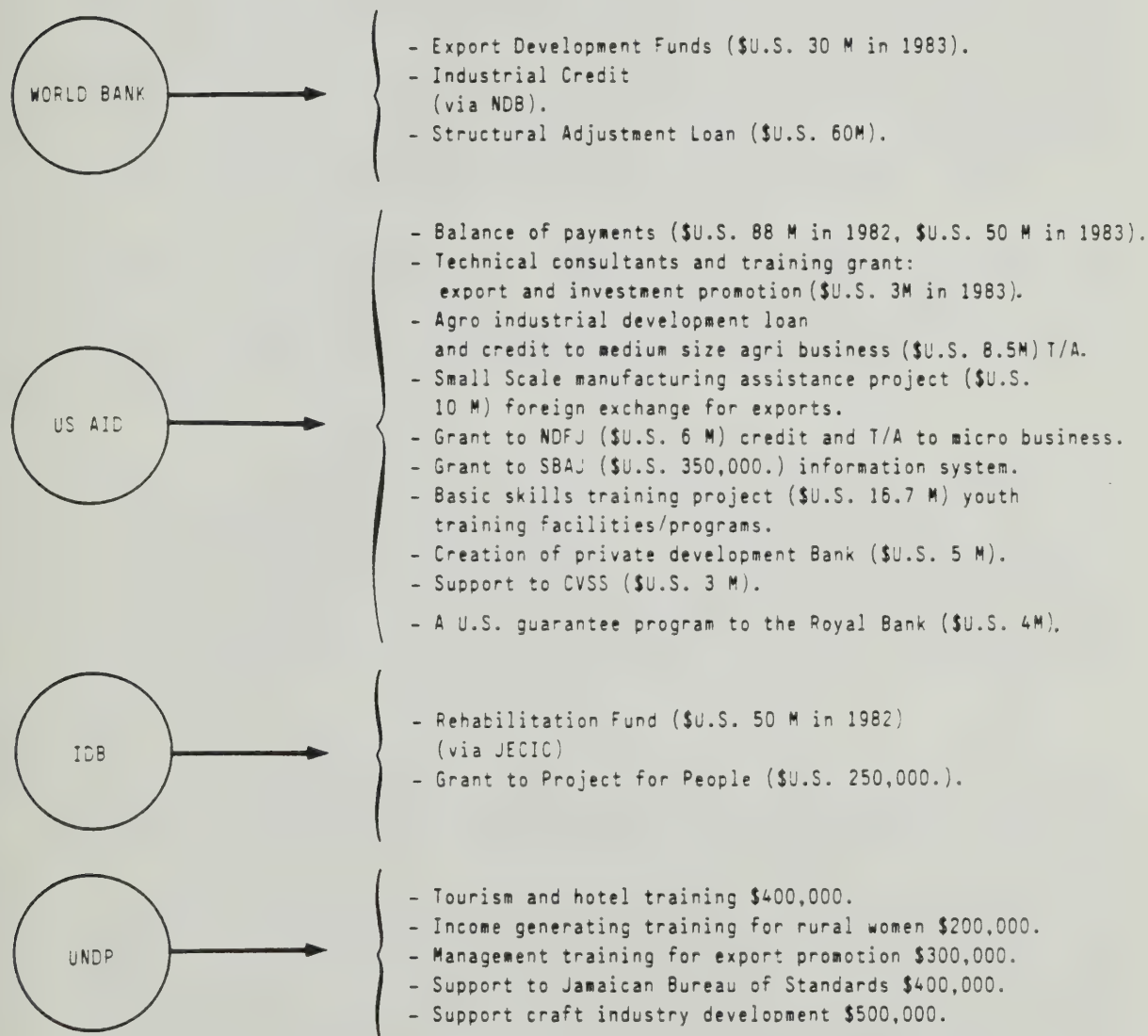


FIGURE 12

IDB: Oriented mainly towards the modern sector, also provides financial assistance to small projects and NGO's.

3.7 Government Policy/Strategy for SSE

Past government policies/strategies have always been directed to the modern manufacturing sector. Except for the establishment of the Small Business Loan Board in 1956, and later other organizations catering to more formal small business, the informal sector has always lacked institutional/policy support, as well as financial/technical assistance and extension services.

However, this situation may be changing as the Ministry of Industry and Commerce has now put forward a National Development Plan (NDP) for small business which, if implemented, may have an impact on the development of this sector.

The NDP was developed by a Small Business Task Force composed of representatives from Jamaican agencies and organizations related to the small business sector. (These are shown in Fig. 13.) This Task Force was established in January 1983 with the objective of encouraging greater coordination and cooperation between agencies involved in the development and promotion of the sector.

The major problem areas affecting the small business sector have been identified as finance, marketing, production, training and technical assistance.

Basically, the NDP will focus on the establishment of a National Council for Small Business (NCSB) as a coordinating body between the agencies/institutions catering to the small business sector and the sector itself. The NCSB will also plan for the development of the sector, monitor effectiveness of activities and programs, and make representations on behalf of the sector to national, international, private and public sector groups, as well as to be an advisory link between the government and the small business sector. (A summary of the NDP is given in Appendix 2.)

GOVERNMENT POLICY/STRATEGY FOR SSE

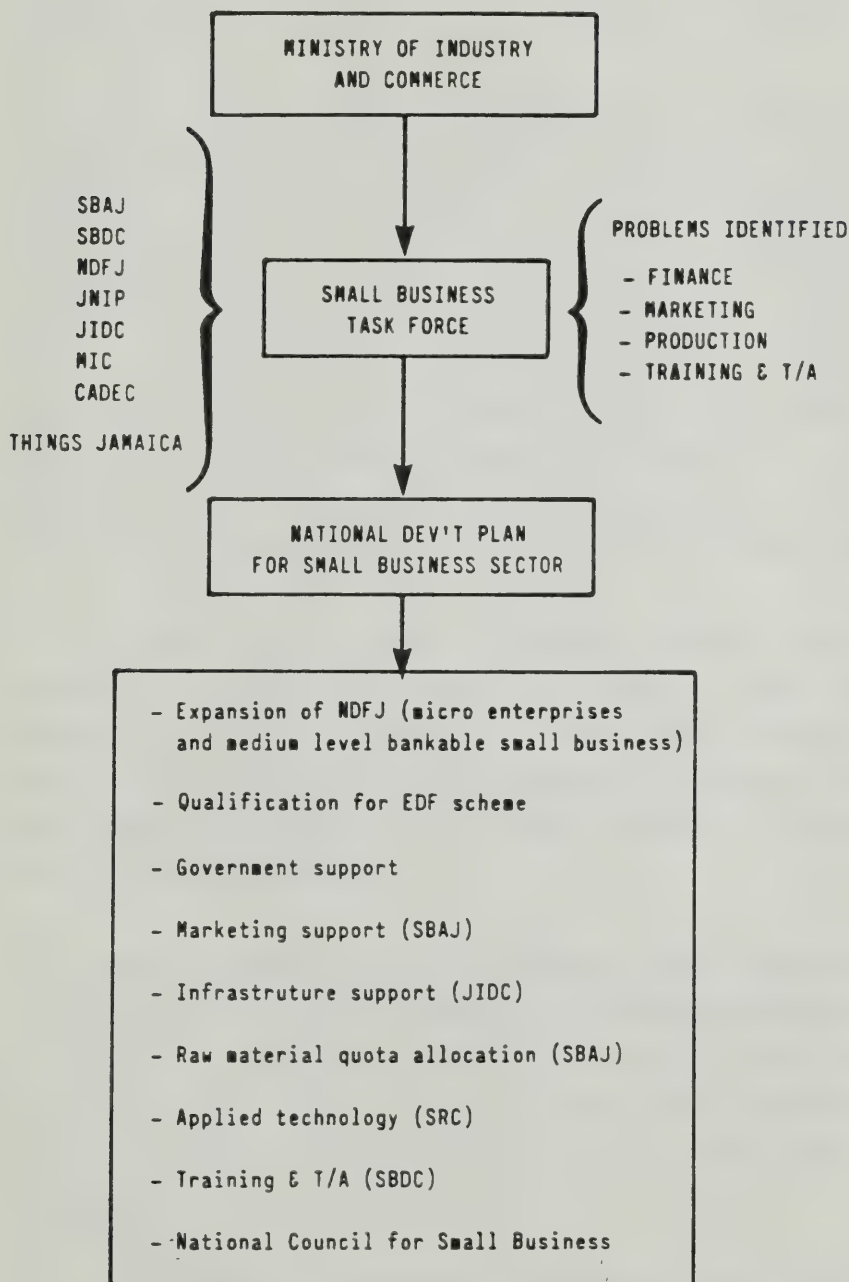


FIGURE 13

While the NDP makes sense overall, it should be noted that its latest version (September 1983) has been stripped down of an originally proposed guarantee fund which would certainly have added to its general effectiveness.

3.8 Conclusion

The analysis of the industrial sector shows its important contribution to GDP as one of the leading sectors in the Jamaican economy, despite its declining performance from 1973 onwards. In terms of employment, small and microenterprises and the informal sector considerably surpass the modern sector, with the great advantage of the former of its decentralization from urban centres, and absorption of an important part of the rural population. However, there is an evident disparity between the modern manufacturing sector and the informal sector. While the first has been overprotected by the GOJ with a number of protectionist policies, and more recently with export-oriented incentives and schemes, the latter has been largely neglected.

The problems and constraints affecting Jamaica's industrial sector are substantial. The recent switch to an export-oriented strategy has not improved the situation. Indeed, the most serious constraints affecting the sector are the shortage of foreign exchange, the balance of payments deficit, the sudden elimination of various QR's, the lack of managerial skills and Jamaica's trading mentality.

The situation is exacerbated for the informal sector, particularly for small and microenterprises located in rural areas. While these enterprises face many of the modern manufacturing sector's problems, they are hard hit by other problems intrinsic to this sector. The more common are the lack of access to credit, a limited business capacity, and its exclusion from major sectoral development policies and incentives.

Nevertheless, the GOJ, through its Ministry of Industry and Commerce, has developed a National Development Plan for the small business sector which, if implemented, could have a major spill on the development of this sector.

The major donors participating in, or related to Jamaica's industrial sector (including small-scale enterprises and social activities) are the World Bank and USAID, whose contribution to date amounts to the equivalent of US\$ 158.7 million and US\$194.5 million, respectively. Other donors are IDB, UNDP, British Aid, Germany, CIDA and the GOJ.

4.0 ELEMENTS FOR A POSSIBLE CIDA STRATEGY

4.1 Introduction/Methodology

In this section, we present the rationale and justification for retaining the industrial sector as a sector of concentration, we show two models of development for small and microenterprises in rural and urban areas which could be developed in case of retaining the sector, and we discuss the methodology for arriving at a strategy for CIDA's intervention and eventually developing a number of options for a possible CIDA program.

The methodology utilized for identifying different possibilities and options for CIDA's intervention, is based on a general analysis of the industrial sector and its importance vis-à-vis the Jamaican economy, of government policy/strategy/development plans for the sector, of possible areas of concentration, as well as existing problems and constraints.

4.2 Rationale and Justification

Based on the foregoing findings, the industrial sector should be retained as a major sector of concentration for the following reasons:

- a) The industrial sector, along with the agricultural sector, constitutes one of the mainstays of Jamaica's economy (18.6% of the GDP in 1977).
- b) Although the modern manufacturing sector is well-endowed with a good financial and institutional base, as we have previously seen, it is in a precarious situation and an intervention in the short term is necessary.
- c) On a socio-economic basis, the informal sector (rural/urban small and microenterprises), which has been largely neglected by government policies and development plans, could play an important role in decentralization from major towns and in alleviating unemployment.

4.3 Models of Development

4.3.1 Rural/Urban Model of Development

As agricultural employment decreases, the need to create nonfarm economic activities aimed at maximizing the use of the underemployed is crucial. Therefore, an alternative industrial strategy must be linked to progressive rural development.

As we have seen earlier, the informal sector plays a very important role in creating employment and in decentralizing from major urban centres. In order to prevent migration of the rural population to urban areas, farm- as well as non-farm-related activities, have to be created. But farm-related activities have their limitations (farmland cannot absorb all the rural population) in a great number of underdeveloped countries and, therefore, we have to focus on non-farm activities.

Figure 14 shows a rural/urban model of development in which small and microenterprise development may be achieved through rural and urban development. We have seen that the urban informal sector is generally created by rural migration and, to a less extent, to the urban unemployed labour force. Although this subsector needs assistance, on the long-term, the emphasis has to be placed on reducing rural migration. The model shows that this is best achieved by rural industrialization, by creating small and microenterprises in agricultural-related activities (agro-industry), cottage and craft industries, small manufacturing and other activities of the rural informal sector.

RURAL/URBAN MODEL
OF DEVELOPMENT

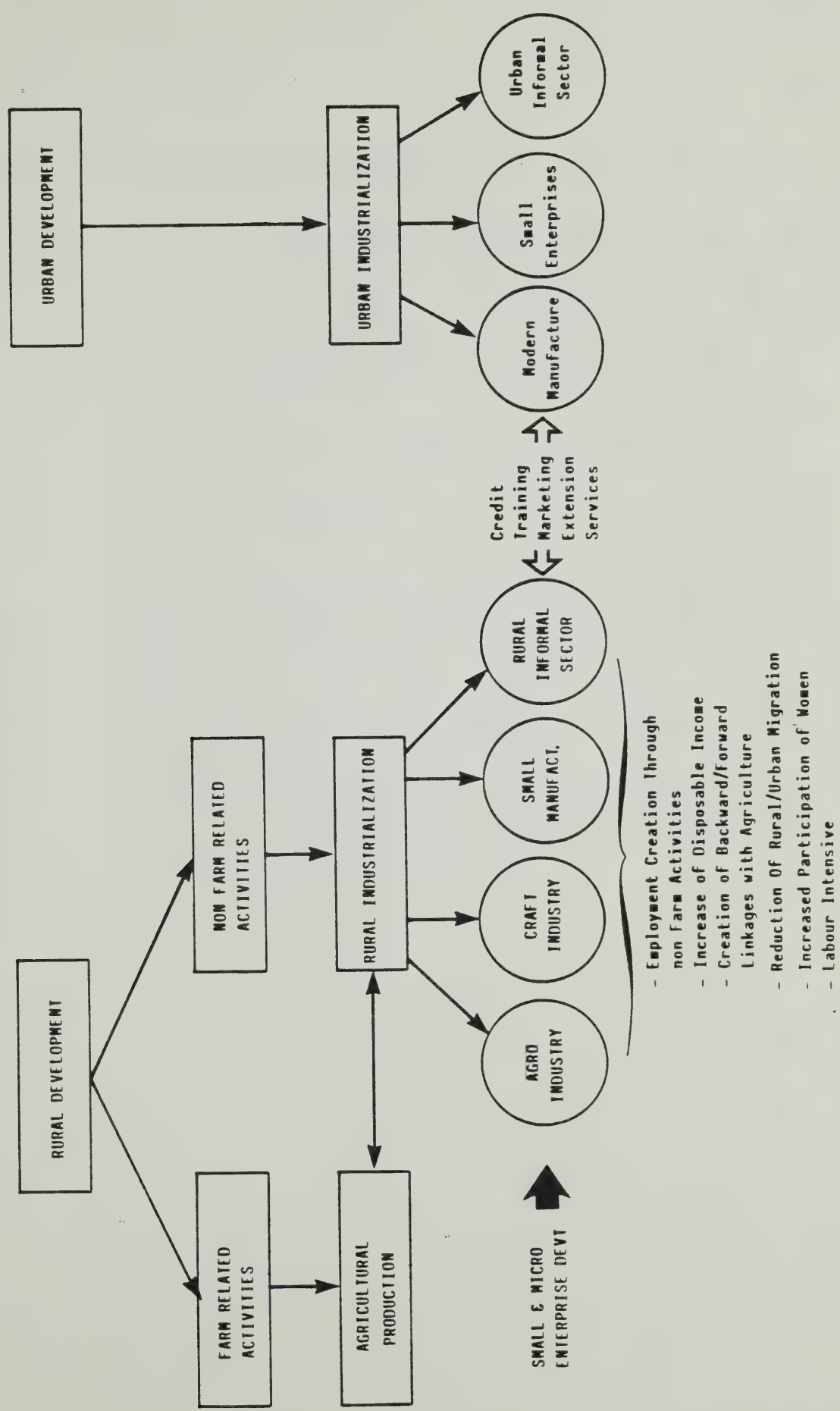


FIGURE 14

4.3.2 Integrated Development Program for SSE

The importance of small and microenterprises in terms of output and source of employment is crucial, as well as their suitability to small, decentralized markets and their ability to easily adapt to changes in the economic environment. However, small businesses have many constraints and problems hindering their development.

In order to assist the development of the small business sector, these constraints have to be removed on an integrated and progressive approach basis.

The corresponding approach is illustrated in Figure 15. A comprehensive integrated development program would include a combination of developmental training and direct assistance. Developmental skills could include technical training, entrepreneurial development, management training, marketing assistance and extension services. Assistance to the sector could include the much needed access to credit, government policy through the NDP, government incentives, raw material bulk purchase, and infrastructure support.

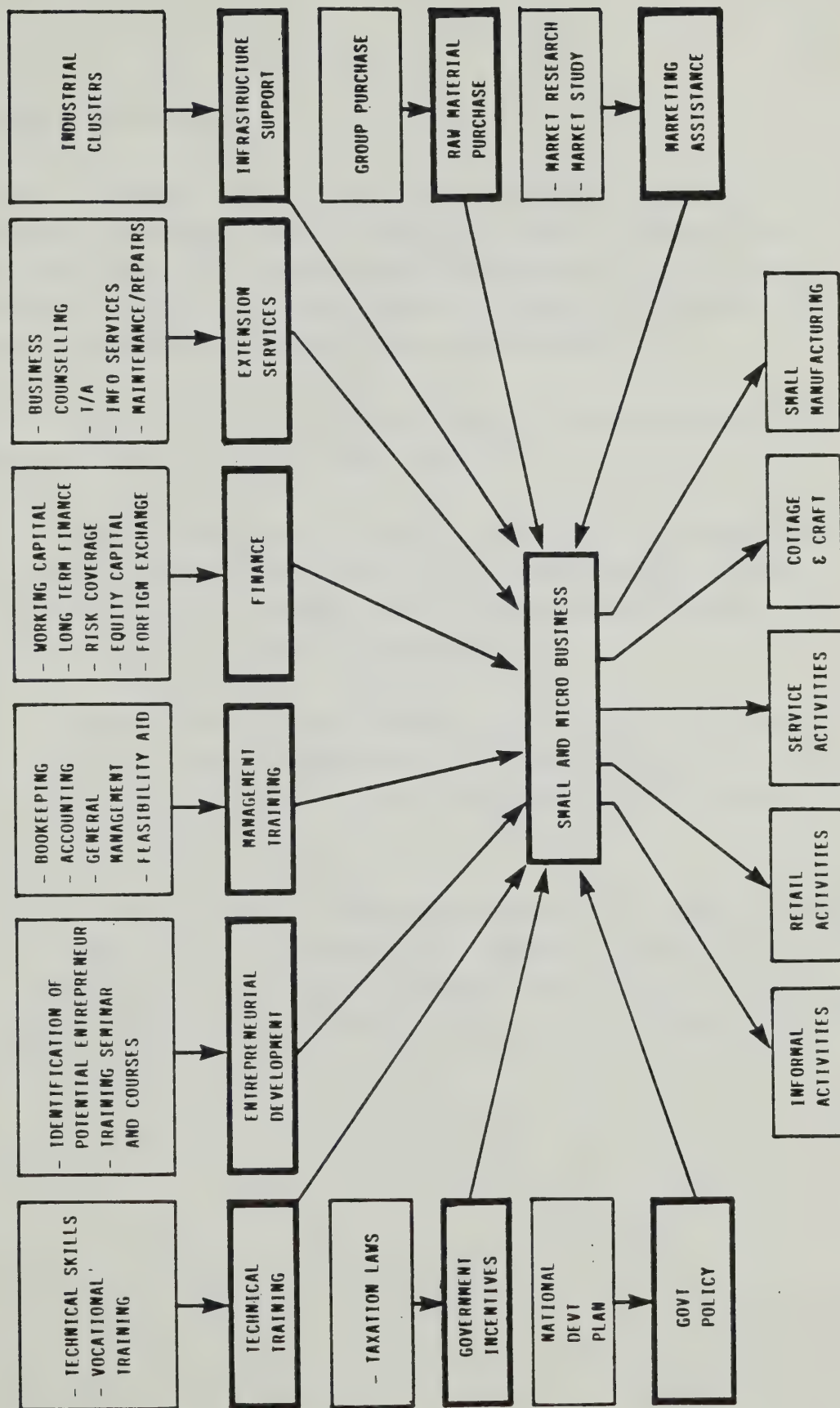


FIGURE 15

4.4 Strategy for Intervention

In order to develop a CIDA strategy for intervention, we have first to understand the Jamaican economic situation and how the different economic subsectors related to the industrial sector are performing. In fact, as we have seen earlier, we can use the same approach of zooming out to understand the Jamaican context and zooming in to understand the reality.

Figure 16 shows the three main strategic areas of concentration which will contribute to develop a CIDA strategy. These are:

- a) a National Development Strategy, which is an outward-oriented economic strategy based mainly on job creation through the export of manufactured goods and agricultural produce, with heavy reliance on the private sector as the motor of development;
- b) an Industrial Strategy based on export promotion and mainly oriented towards an ailing manufacturing sector, which is beset with many problems and constraints, the most important being the shortage of foreign exchange; and
- c) a SSE Strategy based on the National Development Plan (NDP) for SSE. The SSE sector is the hardest hit and, therefore, the strategy should be implemented on an integrated approach and should provide for the removal of constraints, increasing as well the level of disposal income in rural areas.

STRATEGY FOR INTERVENTION

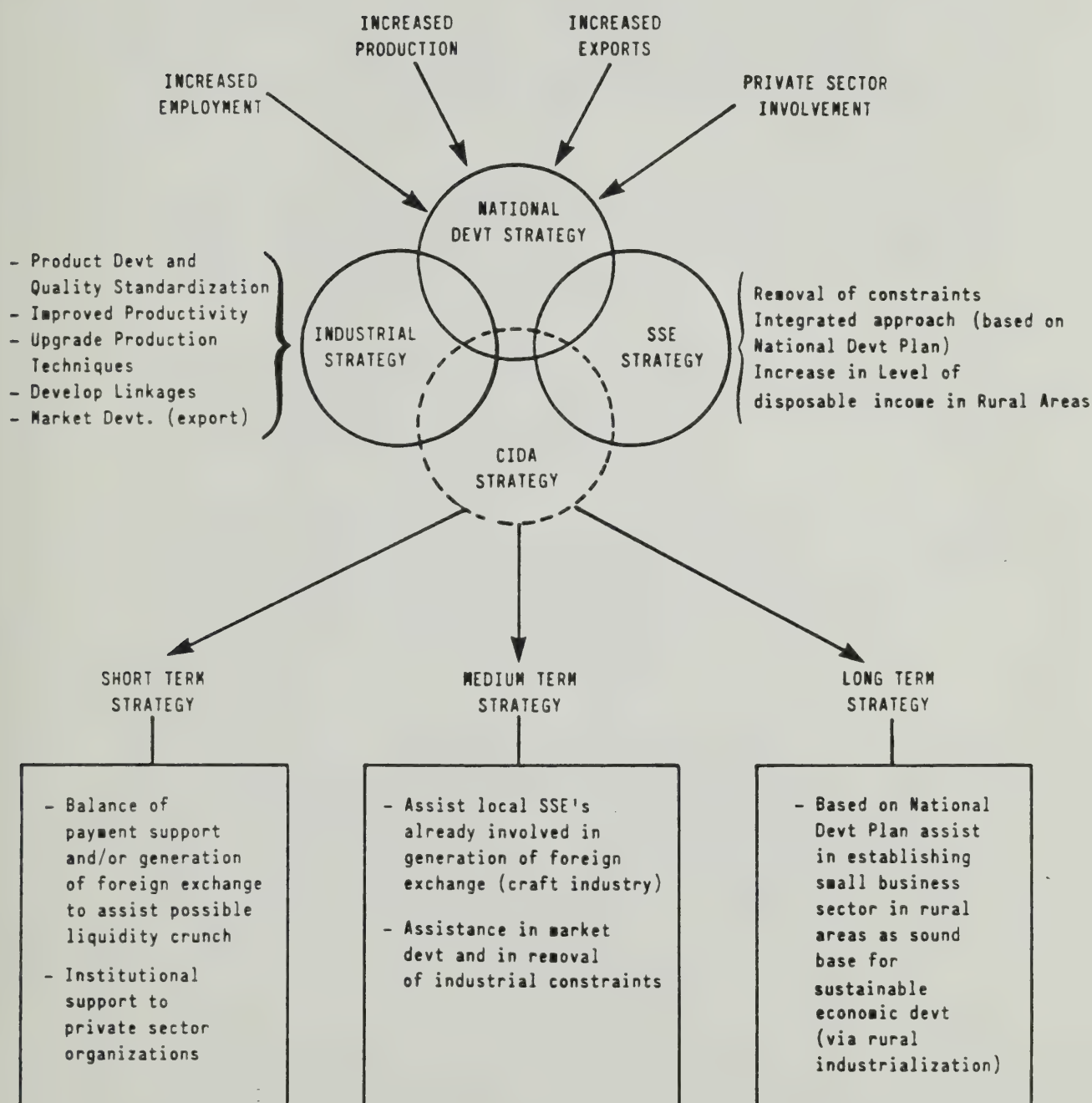


FIGURE 16

As we have seen before, the major weakness of the GOJ strategic orientation is its short-term nature. The elements of a CIDA Strategy (which will eventually lead to a number of possible options for CIDA intervention), will not only have to be coherent and consistent with the above interconnected elements of a National Strategy, but will also have to address short- and medium-, as well as long-term problems/constraints and are, therefore, as follows:

- i) Short-Term Strategy, which will provide balance of payments support and/or foreign exchange to the industrial sector, and institutional support to private sector organizations;
- ii) Medium-Term Strategy, which will assist local SSE already involved in generating foreign exchange, and assistance in market development and in the removal of industrial constraints; and
- iii) Long-Term Strategy, which will be partly based on the NDP to assist in the development of a small business sector in rural areas as a sound base for sustainable economic development (via rural industrialization).

4.5 Possible Options

From the methodology described earlier (4.1) and the analysis of the different constraints affecting the industrial sector (defined in section 3.5), we can now develop possible options for CIDA's intervention. These options have been grouped according to CIDA's strategy and will constitute the three areas of intervention in the short/medium/long-term.

In Figure 17, we present these options divided in short/medium/long-term strategies, describing for each option or group of options their main objectives and mechanisms utilized to implement each option.

The most promising options for a possible CIDA intervention are listed below:

- A) **Short-Term Strategy.** In the short term, we have to focus on solving short-term difficulties. This could best be achieved by assisting the GOJ in improving the balance of payments situation to prevent a possible liquidity crunch, and in generating foreign exchange through industrial exports. Therefore, the possible options could be (i) balance of payments support, and (ii) line of credit to JMA for industrial commodities.
- B) **Medium-Term Strategy.** Focused on supporting existing small-scale activities generating foreign exchange or productive activities in rural areas. In this case, the GOJ could be assisted in strengthening local SSE already involved in generating foreign exchange, by supporting the craft industry and by developing a national plan for that industry. Here the most appropriate option could be technical and financial assistance to Things Jamaica and/or SBAJ.
- C) **Long-Term Strategy.** Focused on establishing a sound base for economic development via small and microenterprises in rural areas. This strategy could be based on the National Development Plan to assist in establishing small and microenterprises in rural areas as a sound base for sustainable economic development (via rural industrialization).

The possible options could be (i) technical and financial assistance to SBDC; (ii) the establishment of a guarantee fund with a private bank; (iii) technical and financial assistance to NDF; and (iv) technical assistance to the National Council for Small Business (proposed in the National Development Plan).

POSSIBLE OPTIONS

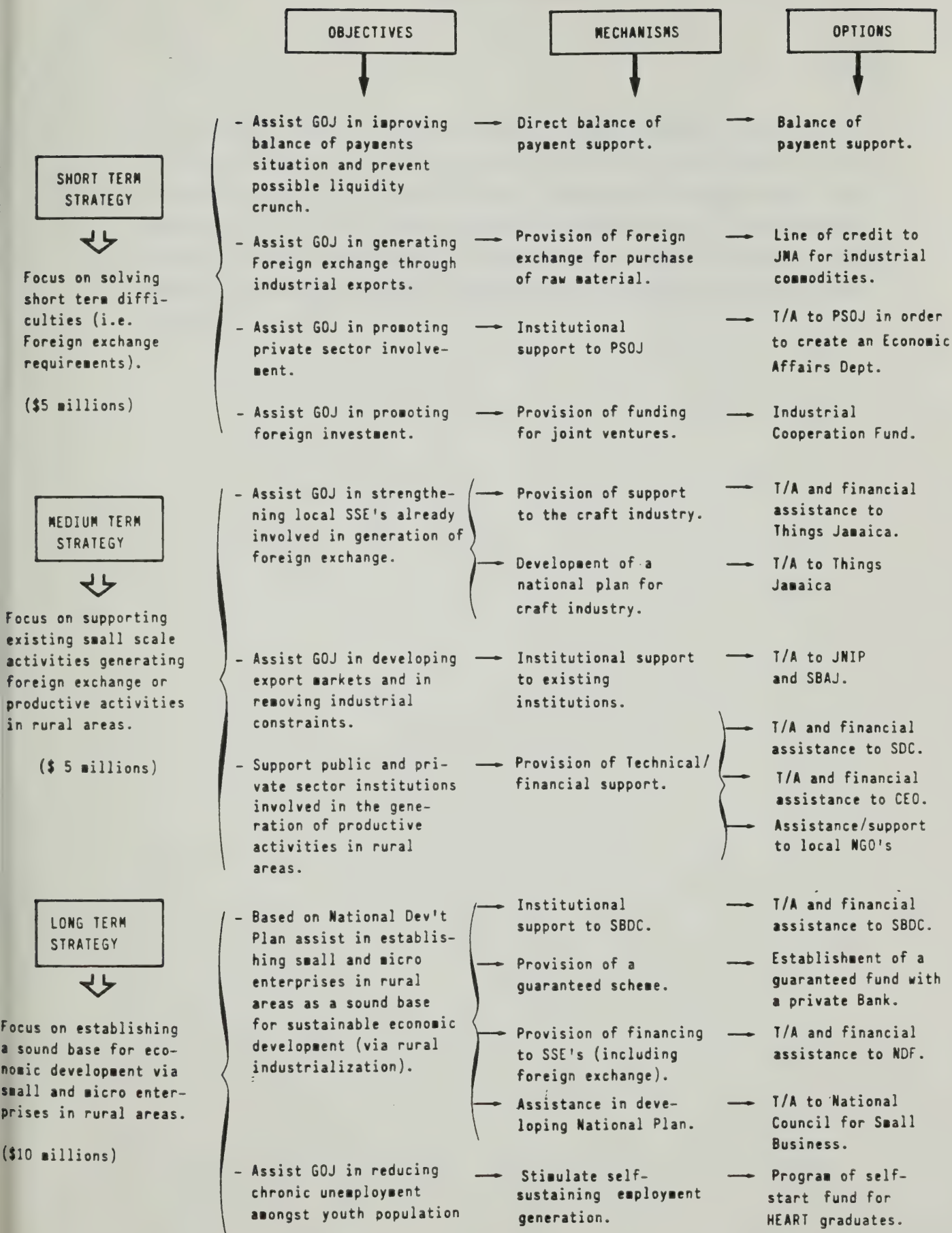


FIGURE 17

The preceding options, which have been developed based on the Jamaican context and the industrial sector situation, have to be contrasted with the options developed by the other sectors, particularly agriculture and human resources, in order to provide an integrated CIDA program. Then scenarios of intervention will be developed and an identification mission to Jamaica will be necessary to test the different options in order to prepare a plan of operation for CIDA.

5.0 CONCLUSIONS/RECOMMENDATIONS

The analysis and conclusions presented have demonstrated (i) the importance and potential of the industrial sector to the Jamaican economy and to the GOJ which places the greatest hope as the most dynamic sector to improve the economy and generate foreign exchange and employment, (ii) the extent of the problems and constraints besetting the economy in general and the industrial sector in particular and (iii) the crucial need to address the various problems through a long-term development strategy.

The recommendations presented below are based on sector findings and government and sector strategies, from which the elements for a CIDA sectoral strategy and possible sectoral options have been developed. These recommendations address the needs of the industrial sector at the short/medium/long-term. It is, therefore, recommended:

1. To retain, as a potential CIDA sectoral strategy, a two-pronged approach combining the alleviation of the foreign exchange constraint in the short term, and the development of small and microenterprises in rural areas in the long term, as the basis for sustainable economic development;
2. To operationalize the sectoral strategy via a combination of bilateral and special program mechanisms (ICDS, NGO's, Industrial Cooperation);
3. To incorporate institutional, as well as human resources development, as part of the sectoral strategy; and
4. When elaborating the overall global strategy, the potential complementarities of the industrial and agricultural sector strategies should be emphasized.

APPENDICES

TERMS OF REFERENCE
SECTORAL REVIEW INDUSTRY - JAMAICA

PROJECT NO.

1.0 INTRODUCTION

CIDA's Jamaica Desk has retained Jamaica's Industrial Sector (including small scale enterprises and microenterprises in the informal sector) as a possible area of intervention within the scope of CIDA's Country Program Review. A sectoral desk study, based on the limited information available has revealed that the potential of the industrial sector is characterized by:

- (a) The recovery of the modern manufacturing sector; and
- (b) the generation of employment and utilization of indigenous non traditional raw materials by the informal sector.

Due to the present lack of in depth knowledge of the exact situation of the industrial sector it is now necessary to complete our review through a field assessment/analysis which will identify more precisely the potential options for canadian assistance.

Considering that three-quarters of the total number of small enterprises and 60% of the workforce of the manufacturing sector are located in rural areas, it is quite logical to presume that the emphasis will be placed on SSE and the informal sector (microenterprises and handicrafts).

However, it should be noted that the knowledge of present industrial activities in Jamaica is weak and only tentatively accurate and, therefore, the sector study should be wide in scope so as to not eliminate prematurely other sectors of intervention for which we do not have presently enough information.

2.0 OBJECTIVES

The mains objectives are:

- a) to determine the present socioeconomic conditions prevalent in the industrial sector and identify the developmental constraints;
- b) to determine if the industrial sector needs to be retained as a sector of concentration;
- c) to translate this concentration into privileged subsectors, and
- d) to develop a strategy and possible options for CIDA's intervention.

3.0 MISSION COMPOSITION

The mission team will be formed by one specialist in SSE development and in development banks and institutional infrastructure (team leader) and one specialist in industrial development and agro industries. It is also envisaged to utilize the services of a Jamaican expert from the Institute of Social and Economic Research, University of the West Indies, in Kingston, Jamaica (to be confirmed), who has extensive experience in the manufacturing sector's social environment, particularly SSE and the informal sector.

4.0 SCOPE OF WORK

Without limiting the generality of the foregoing, the mission will provide the following services:

4.1 Pre-Mission Activities

- a) Review all background information, including the sectoral profile on industry, and prepare a workplan.
- b) Prepare a tentative list of visits to institutions and organizations related to the industrial sector, NGO's and international organizations. Send the list to the CHC in Jamaica two weeks prior to the mission's arrival.
- c) Consult with the World Bank, the Inter-American Development Bank and USAID in order to obtain recent information on Jamaica's industrial sector and on the SSE microenterprise subsector.

4.2 Mission Activities

- a) Acquire a general overview of the industrial sector, its structure, trends, potentials, constraints and needs, by visiting local and international organizations and institutions related to the industrial sector as well as local enterprises (medium, small and micro) in rural/urban areas and in the formal/ informal subsectors.
- b) Visit government institutions and organizations such as the Ministries of Industry, Planning and Education, Jamaica Industrial Development Corporation (JIDC), Small Enterprise Development Corporation (SEDCO), etc. in order to:
 - (i) analyze existing strategies with an integration context with other possible sectors of intervention (particularly agriculture), in order to identify projects which could use local raw materials and could absorb rural labour;

- (ii) analyze present and proposed government strategies and policies related to industrial development in general and to SSE and the informal sector in particular (financial incentives, customs and fiscal protection, export promotion programs, availability of foreign exchange to non traditional exports, investment code, etc.);
 - (iii) identify local raw materials that could be utilized in industry (agroindustries, wood industries);
 - (iv) obtain information on import-export of finished products; and
 - (v) identify training programs for technicians and skilled labour for SSE, microenterprises and handicrafts.
- c) Visit financial institutions, such as the Bank of Jamaica (central bank), the National Development Bank (NDB), the Small Business Loan Board (SBLB), SEDCO, etc., in order to:
- (i) identify present investments for SSE, microenterprises and handicrafts, investment priorities of the industrial sector and distribution of projects in the country; and
 - (ii) identify to which extent the financial assistance provided by the SBLB, SEDCO and other similar institutions fill the financial needs of SSE, microenterprises and handicrafts.
- d) Visit a representative sample of enterprises of the modern manufacturing sector (approx. 20%) and SSE and the informal sector (approx. 80%).
- e) Study the principal subsectors (modern manufacturing, SSE, microenterprises) in order to determine those presenting a development potential and to meeting Canadian capabilities.

- f) Visit international organizations and NGO's such as the World Bank, IDB, UNDP, USAID, OXFAM, etc., in order to:
 - (i) verify industrial development programs to the industrial sector in general, and to SSE and the informal sector in particular;
 - (ii) verify any projects developed or supported by USAID, IDB or other organization/institution for microenterprises and handicrafts; and
 - (iii) review external aid to the modern manufacturing sector, SSE and the informal sector.
- g) Debrief CIDA's field representative at the CHC in Jamaica and present preliminary results and possible options for CIDA's intervention.

4.3 Post-Mission Activities

- a) From the preceeding analysis, prepare possible intervention strategy scenarios analyzing the impact of each one for CIDA's intervention.
- b) Prepare a draft report upon return of the mission from Jamaica, presenting the analysis of the industrial sector (modern manufacturing sector, SSE, microenterprises and handicrafts), priority subsectors, envisaged strategies and recommendations for CIDA's intervention.

APPENDIX 2

NATIONAL DEVELOPMENT PLAN FOR SSE (Summary)

The NDP was developed by a Small Business Task Force composed of representatives from Jamaican agencies and organizations related to the small business sector. This Task Force was established in January 1983 with the objective of encouraging greater coordination and cooperation between agencies involved in the development and promotion of the sector.

A general definition of small business has been formulated with more specific criteria for identifying three segments which, in the opinion of the Task Force, constitute the sector. These are:

1. Micro Business
2. Medium Level Small Business
3. Bankable Small Business.

The major problem areas affecting the small business sector have been identified as finance, marketing, production, training and technical assistance. Briefly, these will be addressed as follows:

Financing

Financing is the number one constraint affecting the development and expansion of small business. The major problem is that lending institutions are not willing to assist small business persons with development capital or working capital, due to a lack of collateral and the inability to prepare and present the appropriate information required by financial institutions.

It is estimated that the small business sector in Jamaica employs more people than the modern manufacturing sector. According to the National Development Foundation of Jamaica (NDF), the average capital cost per job created in the small sector is J\$2,250. This compares very favourably with the manufacturing sector

which requires J\$120,000-\$180,000 per job created. The Task Force, taking a conservative view of capital/employment ratio of J\$10,000 per new job, estimates that at least 1,000 new jobs could be created if J\$10 million additional loan funds were made available to small business.

The Task Force recommends that funding be provided to NDF for the establishment of a second window to service a loan portfolio of J\$10 million and for the provision of technical assistance to NDF by an international agency. It should be noted, however, that a lending gap exists for medium/bankable small business which requires an average of J\$80,000 of loan funds. This gap covers the loan range of J\$20,000-\$100,000 which is above the present J\$20,000 lending limit of NDF. Therefore, provision should be made to either increase the lending ceiling at NDF or provide a small business window at the NDB.

Another important issue to consider is the export financing required by some small businesses. Export financing, as it is presently administered through the EDF, does not address adequately the problems encountered by the sector. Small business which are eligible and able to export should have access to financing in order to enable them to qualify for assistance under the EDF scheme.

Marketing

The survival of any business is dependant on its market. Marketing is an aspect of business that is least understood by the small business entrepreneur, hence, the many problems experienced by the sector.

The Task Force recommends that: (a) the GOJ provide preferential support through the SBAJ to develop marketing expertise among small business entrepreneurs. The SBAJ would need technical assistance to expand and upgrade their present marketing services; (b) the small business firms have representation, through the SBAJ, on all trade missions abroad; and (c) a central information window should be established at the SBAJ to provide readily available information concerning all services available to small business.

Production

To the small business entrepreneur, production is usually understood only in its narrowest context as the task of completing an item. Consequently, many problems are encountered in producing goods and/or services in a cost-efficient and systematic manner, such as lack of adequate factory space; inadequate supply and quality of raw materials; limited access to appropriate technology; and inadequate planning.

The Task Force recommends: (a) a program of construction of factories by JIDB, using the concept of mini-industrial parks. (This should be carefully studied as small business entrepreneurs may not want to be lumped together with other business for fear of competition); (b) to continue the quota allocation for raw materials to the SBAJ and provision made for an annual increase based on utilization; and (c) that a clear policy to develop appropriate technology be established and implemented by SRC for small business.

Training and Technical Assistance

Although most small entrepreneurs possess the necessary skills to perform their trade, they lack business know-how in order to successfully compete and grow. The training needs are: basic business approach; the ability to develop business plans; production requirements; marketing; financial management; fundamentals on loan application; and appropriate government policy and incentive programs.

The Task Force recommends that: (a) SBDC has primary responsibility for implementing this training program in close collaboration with all other agencies in order to ensure maximum utilization of available resources; (b) training programs be formulated to address the needs of micro/medium level/bankable small business; (c) in addition to the broad categories of training, specific programs in the application of appropriate technology be designed for various subsectors (e.g., garments, furniture, leather); and (d) financial support from government be provided to SBDC to implement these programs.

Coordination Between Agencies

There is a need for agencies promoting the development of the small business sector to adopt a coordinated approach to problem-solving and to be supportive of each other.

The Task Force recommends that: (a) coordination be attained through the establishment of a recognized body, such as a "National Council for Small Business"; (b) this body meet at regular intervals to plan for the development of the sector, monitor effectiveness of activities and programs, and make representations on behalf of the sector to national, international, private and public sector groups; and (c) this body be the communicating and advisory link between the government and the small business sector.

5. The unrest and uncertainty which beset the country have had profound consequences on the economy. Along with the sharp deterioration in gross domestic income, a drop in investment of about 60% (from 1978 real levels) was experienced from 1978 to 1981.

6. The current account of the balance of payments continuously deteriorated. Net foreign reserves declined by about US\$ 400 million from December 1978 to December 1981, bringing about payment arrears of about US\$ 65 million. Foreign exchange control was tightened and a dual exchange system introduced based on a priority import list.

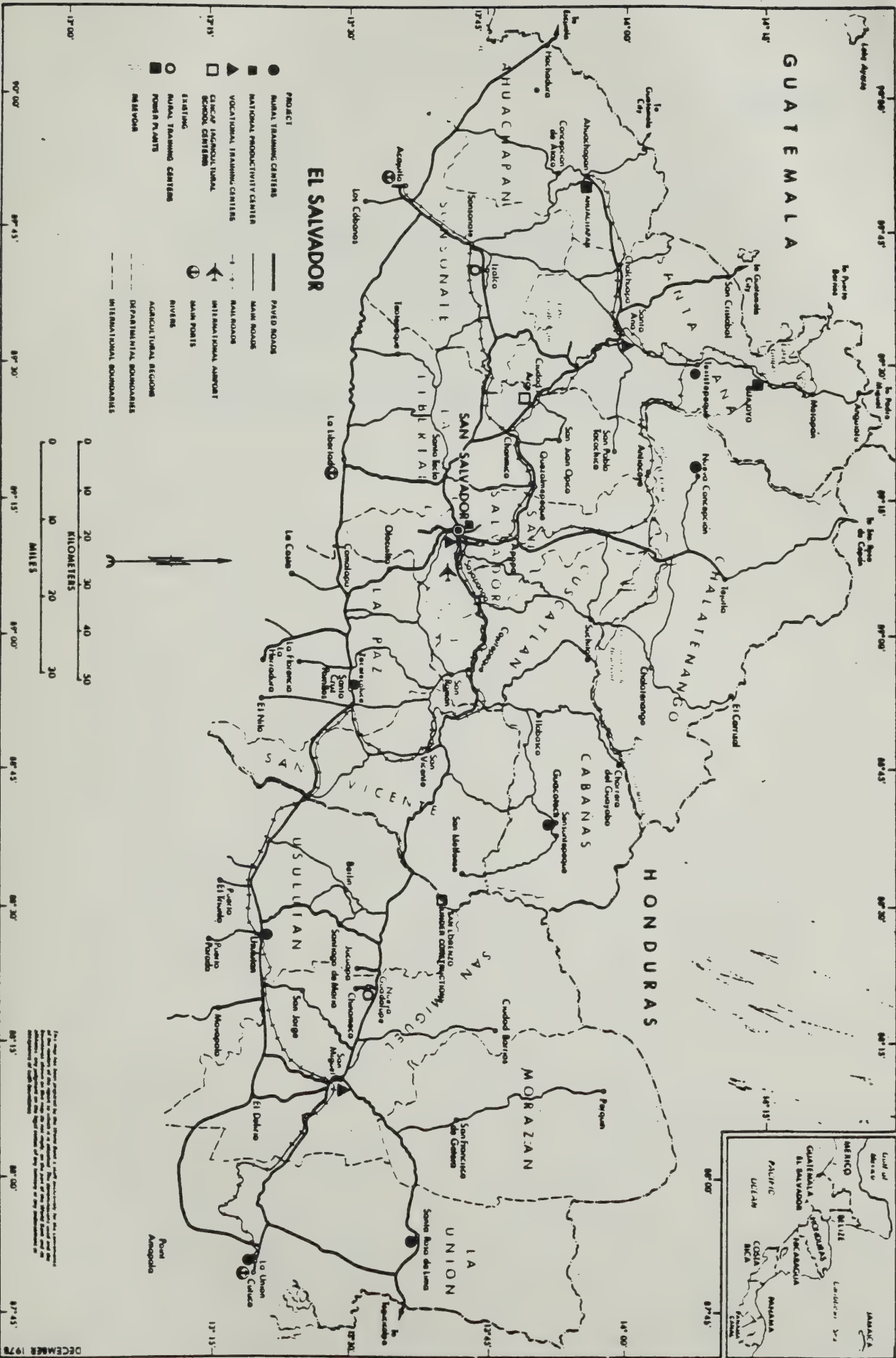
7. The finances of the central Government likewise reflected the prevailing difficulties. In 1980-82, expenditures, increased and tax collections fell owing to decreased economic activities and incomes, as well as lower imports and exports. Capital expenditures during the period declined, in real terms, to 18%. The deficit of the central Government accelerated since 1979 reaching about 9% of GDP in 1982. In the last three years, deficits have also been registered by agencies other than those of the central Government, thereby reducing total public savings. In 1983, a standby agreement was reached with IMF which included the adoption of fiscal policies designed to reduce the deficit of the central Government.

8. The prospects of recovery for El Salvador in the immediate future seem to depend on four major factors: the settlement of the social conflict; normal operation of production activities in agriculture and the industrial sectors; the start-up of new agro-industrial and light industry projects to cope with unemployment; and developments in international markets.

9. Given the difficulties facing the country's balance of payments and its foreign exchange situation, multilateral and bilateral cooperation is bound to play a relevant role in the recuperation process. The debt service ratio in relation to exports is now relatively low (at about 4.6% in 1981) and the level of the external debt outstanding at the end of 1981 was US\$ 664 million or US\$ 1 035 million if undisbursed loans are included. Because of the lack of foreign commercial bank credit, most of the inflow of external financing would have to come from undisbursed loans and/or new operations with multilateral and bilateral sources, preferably on concessional terms.

B. The Agricultural Sector

10. Agriculture and natural resources represent the country's most important productive sector. They are the principal source of the country's food supply and provide more than 90% of the basic staples consumed locally. In 1978-82, the sector accounted for 70% of export earnings (with cotton, coffee and sugar representing about 50% of all exports in 1982). The sector's imports (of inputs and capital goods) represented slightly less than 10% of the value of agricultural exports in the last four years.



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